

CONDITION FOR APPROVAL FORM
(TO ACCOMPANY LEGISLATION)

COMMITTEE: _____

DATE: 10/31/10

ORDINANCE # _____ RESOLUTION # 10-R-0594

REQUESTED BY: Committee

DIRECTED TO: Financial Officer

NATURE OF CONDITION FOR APPROVAL:

Provide updated 5yr Financial plan

WHEN IS THIS INFORMATION DUE, AND TO WHOM?

WILL THIS RESULT IN AN AMENDMENT TO THE LEGISLATION?

YES () NO ()

WILL THIS RESULT IN A SUBSTITUTE TO THE LEGISLATION?

YES () NO ()

HAS THIS INFORMATION BEEN RECEIVED? YES () NO ()

DATE OF RECEIPT: _____

**A SUBSTITUTE RESOLUTION
BY: FINANCE/EXECUTIVE COMMITTEE**

10-R-0594

**A RESOLUTION BY THE COUNCIL OF THE CITY OF
ATLANTA, GEORGIA ADOPTING THE CITY OF
ATLANTA FIVE YEAR FINANCIAL PLAN; AND FOR
OTHER PURPOSES.**

Whereas, the Moody's and Standard and Poor's Investor Rating Services both downgraded the City of Atlanta's General Obligation Debt rating in 2009 based on the City's diminished financial position and declining revenues, and

Whereas, the Atlanta City Council Adopted Resolution 09-R-1213 authorizing the development and adoption of a 2009 through 2014 Financial Stabilization Plan; and

Whereas, the purpose of the Five Year Financial Stabilization Plan is to outline fiscal stabilization priorities, by preference; and

Whereas, an intent of Ordinance 09-R-1213 was to have the Financial Stabilization Plan submitted to Council for consideration by October 15, 2009; and

Whereas, the City Council recognizes that the national, regional and City economies have changed and continue to change since the provision of the Five Year Financial Stabilization Plan; and

Whereas, The City Council desires to approve the 2009 – 2014 Five Year Financial Stabilization Plan, which is included as "Attachment A" as the guide by which the City shall move forward in stabilizing and improving the City's financial position; and

Whereas, the Franklin Administration provided a Report by the Office of Program Management on the STATE OF THE CITY'S INFRASTRUCTURE, which is included as "Attachment B"; and

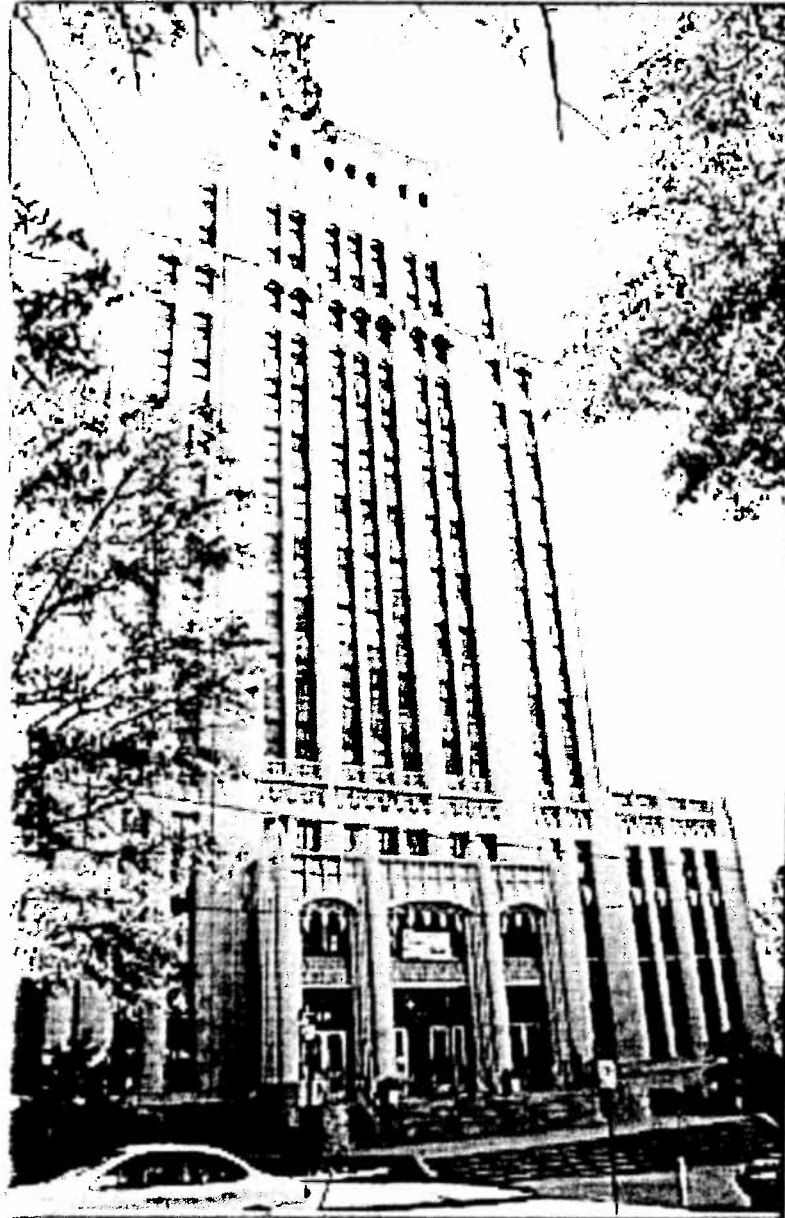
Whereas, the purpose of the report on the STATE OF THE CITY'S INFRASTRUCTURE was to assess the current state of the City's public and operating infrastructure, estimate the infrastructure deficit, quantify the cost for eliminating the deficit, and develop a financing strategy; and

Whereas, the City Council desires to include the report on the STATE OF THE CITY'S INFRASTRUCTURE as an addendum to and part of the Five Year Financial Stabilization Plan.

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF ATLANTA RESOLVES;

SECTION 1: That the 2009 – 2014 Five Year Financial Stabilization Plan, including the report on the STATE OF THE CITY'S INFRASTRUCTURE as an Addendum, be adopted as the guide by which the City shall move forward in stabilizing and improving the City's financial position.

SECTION 2: That all resolutions or parts of resolutions in conflict herewith are hereby waived to the extent of the conflict.



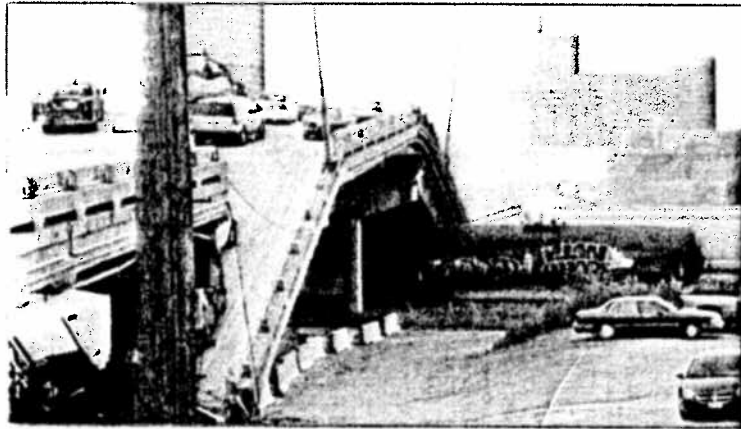
STATE OF THE CITY'S INFRASTRUCTURE

A Report by the Office of Program Management

State of the City's Infrastructure

INTRODUCTION

In recent years the deterioration of the nation's public infrastructure has become a critical source of concern for governments at the federal, state and local level. The levee system collapse in New Orleans, the Minneapolis bridge collapse, the steam pipe explosion in mid-town Manhattan, and countless emergency measures being implemented to offset crumbling dams, bridges and tunnels



THE NATION'S DETERIORATING INFRASTRUCTURE: MINNEAPOLIS BRIDGE COLLAPSE

throughout the country have focused much-needed attention on the state of the nation's infrastructure. While the local details vary, what has been revealed is a systematic failure – at all levels of government – to invest in the nation's capital stock.

The watershed moment in many respects was the 2005 report card released by the American Society of Civil Engineers (ASCE) that claimed that 160,570 bridges - or just over one-quarter of the nation's bridge inventory - were rated structurally deficient or functionally obsolete. The ASCE estimates that \$1.6 trillion is needed to bring the nation's infrastructure to a good condition. In Georgia, 20% of state's bridges are deficient or obsolete, 105 dams are deficient, and the water and waste water infrastructure alone needs \$4.9 billion in investment. In addition, metro Atlanta's transit and transportation infrastructure has greater investment needs than almost any region in the country.

Despite the nation's impressive tradition of investing in public infrastructure - canals and railroads in the 19th century, transit and highways in the 20th century - the country's commitment to public infrastructure has waned in recent decades. Since 1980, the United States has invested less than 2% of its Gross Domestic Product (GDP) in infrastructure – less than what it spends on higher education. Europe spends 5% of its GDP on public infrastructure and China over 9%. China intends to invest \$200 billion in its railways alone between 2006 and 2010.

“Establishing a long-term plan for the country's infrastructure must become a national priority”

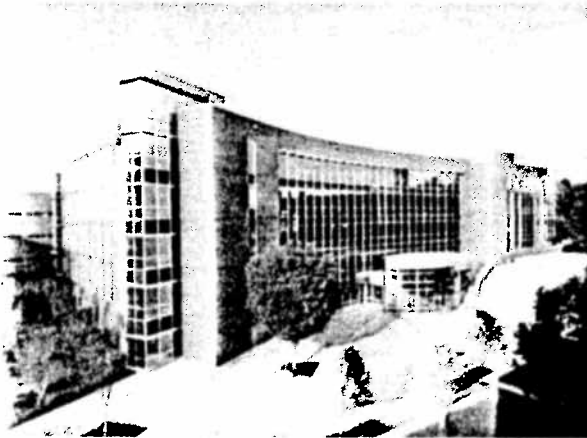
ASCE president William F. Marcuson

Despite this lack of leadership from the Federal and State governments, the City of Atlanta has made significant strides to upgrade and maintain the quality of its public infrastructure.

Since 2001, the City has secured funding for a \$3.9 billion waste water infrastructure rebuild, a \$5.4 billion infrastructure program at Hartsfield Jackson Atlanta International Airport, \$150 million investment in streets and sidewalks through the Quality of Life Bond Program, \$200 million for public buildings and facilities, and \$43 million for 733 acres of new parks and

State of the City's Infrastructure

greenspace. In addition, the City is moving ahead with the development of a transit and parks corridor (the Beltline) that will add an estimated \$2 billion to our greenspace and transit capital inventory.



INVESTMENTS ARE CRITICAL: NEW PUBLIC SAFETY HEADQUARTERS

While these investments represent important progress in upgrading our public infrastructure, they account for only a fraction of the City's long-term capital needs. Rapid population growth and the subsequent demand on public infrastructure will require the City to make additional investments in its capital stock. In recent years, the City has begun a program to systematically inventory and track its capital requirements with the goal of creating a fully-funded program designed to upgrade and maintain its inventory of capital assets.

The purpose of this report is to provide an assessment of the public infrastructure currently under management by the City of Atlanta. This excludes infrastructure managed by other local government authorities such as that of the Atlanta Public Schools, the Metropolitan Atlanta Rapid Transit Authority (MARTA), the Atlanta Fulton County Recreational Authority, and Grady Hospital. The report further restricts its focus to infrastructure related to general government operations – specifically; it excludes the City's water/sewer infrastructure (including storm water management) and the infrastructure at Hartsfield-Jackson Atlanta International Airport where, in both instances, capital is financed through independent enterprise funds and not general government receipts.

The report also does not address the City's prospective capital needs to expand the inventory or capacity of its infrastructure.

Between 2000 and 2007 the City of Atlanta grew at an annual rate of 3.2% and added approximately 100,000 new residents during that period. If that rate continues, the population of the City will double by 2030. New residents both

increase the utilization of the existing infrastructure (thereby

reducing its effective lifecycle) and increase its capacity requirements. For example, the recently completed *Connect Atlanta* plan suggests that the City needs to provide at least \$2.8 billion in new transportation infrastructure funding to accommodate anticipated growth in the City. While we have not included these projections into this analysis, they should be incorporated in future long-term capital planning efforts.

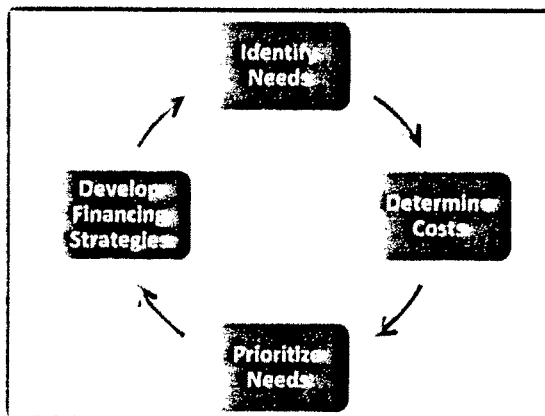


GROWTH PLACES NEW DEMANDS ON CITY INFRASTRUCTURE - ATLANTIC STATION

State of the City's Infrastructure

APPROACH

The City of Atlanta has adopted an approach to planning and budgeting for capital infrastructure repairs and replacement as recommended by the Government Finance Officers Association (GFOA). As the diagram indicates, there are four steps to sound capital management (1) identification of capital needs, (2) determination of replacement, repair, and maintenance costs, (3) prioritization of needs, and (4) development of appropriate financing strategies.



Identify Needs

Effective planning necessarily starts with an effective mapping of current infrastructure conditions. Included in this report is an inventory of the City's current capital infrastructure that has been compiled in conjunction with the City's operating departments. Each infrastructure component has been assigned a "lifecycle" based on original engineering specifications (where available). In cases where those specifications are not available,

industry standards are applied. In addition, each infrastructure component was rated according to age and/or condition. Since much of the City's infrastructure exceeds its assumed lifecycle, it is important to assess its relative condition to inform the prioritization process described below.

ESTIMATED COSTS

For each infrastructure component standard replacement costs have been assigned. In general, these are based on 2007 costs as reported by the operating departments. Of course, as a practical matter, costs will vary based on the individual circumstances of each infrastructure element (i.e., no two bridges are exactly alike). However, for planning purposes standardized costs assumptions have been adopted.

PRIORITIZED NEEDS

Given the limits on resources and the likely need to phase-in a capital investment program, prioritization is critical. In each of the capital categories under review, operating departments have been asked to rank the backlog inventories according to whether their condition was Critical (Priority 1), Urgent (Priority 2), or Important (Priority 3). Each department applied its own set of objective criteria (e.g., age, condition rating, etc) to this ranking exercise. It is important to note that no effort at this point has been made to prioritize across different capital categories. In other words, no attempt has been made to determine if repaving a street has a higher priority than replacing a fire station. Those trade-offs will naturally have to be made once funding strategies have been identified.

IDENTIFY FINANCING STRATEGIES

The strength of a capital infrastructure program is measured by its ability to access the financial resources necessary to implement replacement and repairs. While local governments have a diversity of financing tools available to support such programs - including the issuance of general obligation bonds, bonds issued by specially constituted authorities, and general government receipts - typically, local governments finance on-going capital needs through periodic general bond issuances.

State of the City's Infrastructure

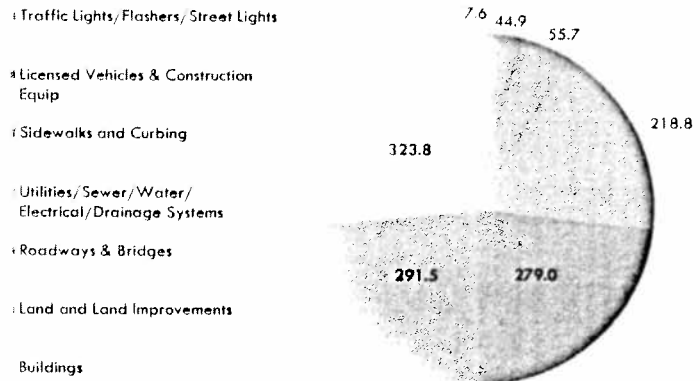
CURRENT STATE

The City in its General Fund (again, excluding water/sewer and airport infrastructure) owns approximately \$1.2 billion in capital assets. This is their "book value", which is their original cost depreciated over time. We estimate that it would cost \$3.4 billion to replace this inventory today.

Like most governments around the country, the City has a significant backlog of capital infrastructure in need of replacement or major repair. This backlog is the result of decades-long practices of failing to catalog, track and fund capital needs in a systematic and timely manner. Consequently, the City operates with an infrastructure "deficit" that increases operating costs and inhibits the City's ability to meet operational performance targets.

For the purposes of this assessment, the City's infrastructure has been distributed into two categories. The first is "public infrastructure" - defined as infrastructure that is used primarily for public purposes. The second is "operational infrastructure" - defined as infrastructure that is required to support local government operations. The study focuses on the following components of infrastructure in each of those two categories:

**Net Book Value of Existing City Infrastructure
(\$ millions)**



Public Infrastructure

Transportation

- Traffic Signals
- Street Lights
- School Flashers
- Paved Streets
- Sidewalks & Ramps
- Bridges

Operational Infrastructure

Motorized Fleet

- Fleet

Facilities

- Parks & Recreation
- Detention Center
- City Hall Complex
- Fire Stations
- Police Facilities
- Public Safety Training Facility

Public Infrastructure

TRAFFIC SIGNALS

Traffic signals are a critical component of the City's transportation infrastructure. Aside from ensuring safe passage through intersections, traffic signaling systems largely determine the carrying capacity of the urban street network and represent our most cost effective tool for mitigating traffic congestion.

There are more than 330,000 traffic signals in the United States. According to U.S. Department of Transportation (USDOT) estimates, as many as 75 % could be made to operate more efficiently by adjusting timing plans, coordinating adjacent signals, or updating equipment. The Federal Highway Administration (FHWA) recommends retiming signals every two to three years.

Optimizing signal timing is generally a low-cost approach to reducing congestion, costing from \$2,500 to \$3,100 per signal per update. Retiming signals in Seattle, for example, increased efficiency on its major arteries by over 25%.

The City of Los Angeles recently installed a new traffic signaling system – the Adaptive Traffic Control System (ATCS) – to improve traffic flows on city streets.

"The payback in terms of capacity and public acceptance is significant. It's the one investment we can make in the near term that will make a difference in people's lives every day."

*- Former Seattle Mayor
Paul Schell*

The purpose of the system is to control all three critical components of traffic signal timing – cycle length, phase

split, and offset – on a cycle-by-cycle basis. Extensive detector data collected in the signal network is continuously analyzed and evaluated, and the most appropriate signal timing for the existing condition is then implemented within one signal cycle. Any long-term traffic pattern changes and short-term variations in traffic conditions are automatically accommodated by ATCS. The result is fewer stops, fewer delays, and greater intersection operational capacities.



TRAFFIC SIGNAL

A study was conducted to determine the benefits of L.A.'s ATCS over the Urban Traffic Control System that had been in operation as the city's central traffic control system; ATCS was shown to reduce travel time by 12.7 %, reduce average stops by 31 %, and decrease average delays by 21.4 %. Improvements in delay were more significant during the evening peak hours than at other times, but travel time and average stops were improved for all time periods.

While the focus of traffic congestion mitigation efforts in the metro Atlanta areas has generally been on the interstate system, congestion in the City network has been increasing in recent years. New dense residential and retail development – particularly in or near single-family neighborhoods – has increased traffic volumes on arterial and collector streets.

For the most part, the opportunity to construct new roads to offset this increase in demand will be limited by the existing built environment. Instead, the City must seek ways to maximize the carrying capacity of its current street network, and modern traffic signaling technology will need to be part of the solution.

There are a total of 922 intersections with traffic signals located in the City of Atlanta. Some of the equipment currently deployed has the capability to communicate with the central system in the Atlanta Traffic Control Center where operators can monitor the operation of the traffic signals and make changes to signal timing or manually change the timing plans. However, only about 300 intersections of the 922 signals operated by the City of Atlanta have this capability. This lack of interconnection with the central system limits the coordination and synchronization of the City's traffic signals.

Remote management is only possible when a robust communication system is available that links all the signals within the system. Video surveillance – for example - can provide the central control system with real time data on street conditions and adjust signals to reflect changes in traffic flows. A strong communication system can also allow for the development of traffic responsive systems that would dynamically react to the change of unexpected traffic patterns caused by traffic incidents. While the dynamic signal control is resident within the new signals currently being deployed in the City, a major investment is needed to repair vehicle detectors and extend the communications network. This investment would further advance the systems capabilities and the intelligence within the system using video surveillance and communication links to the driving public. We estimate that investments in a new traffic signaling system will increase the efficiency of traffic flows by as much as 20-30% in the City of Atlanta.

A further benefit from an investment in a new signaling system is related to emergency management. The current signaling system has little capability to assist in a full or

Traffic Signaling 101

A traffic signal is typically managed by a controller inside a cabinet mounted on a concrete pad. The cabinet typically contains a power panel to distribute electrical power in the cabinet, a detector interface panel to connect to loop detectors and other detectors, detector amplifiers, the controller itself, a conflict monitor unit, flash transfer relays, and a police panel to allow the police to disable the signal in the case of an emergency.

Solid state controllers are required to have an independent conflict monitor unit (CMU), which ensures fail-safe operation. The CMU monitors the outputs of the controller, and if a fault is detected, the CMU uses the flash transfer relays to put the intersection to FLASH, with all red lights flashing, rather than displaying a potentially hazardous combination of signals. The CMU is programmed with the allowable combinations of lights, and will detect if the controller gives conflicting directions. The average signal intersection includes the following components:

- Displays consisting of 8 signal heads and 8 crosswalk displays
- One controller and conflict monitor
- One cabinet
- Wiring
- Timing devices
- Communication devices

State of the City's Infrastructure

partial evacuation of the City. Law enforcement and other agencies would large rely on manual traffic management in the case of a serious emergency (e.g., act of terrorism, large chemical spill, etc). A fully-enabled system – such as those in operation in New York and other major cities – can be programmed to respond to an evacuation order by coordinating lights and directing traffic away from areas to be evacuated and toward pre-determined evacuation routes.

The City currently spends about \$3 million annually to maintain the existing signaling system. Most of this expense relates to the spare parts and labor required to repair the aging system. This is labor-intensive work that is increasingly expensive to provide. A new system could reduce these costs by over half.

Utility costs comprise approximately \$300,000 of these operating costs and they too represent a savings opportunity. Utility costs could be reduced by completing the conversion to LED displays. Today, only about 20% of the system uses LED displays. The conversion of the signal displays to LED technology would reduce utilities costs by approximately \$240,000 annually.

Overall, nearly half of the components of the traffic signaling system are past lifecycle as outlined in the following table.

TRAFFIC SIGNALS									
INVENTORY (# of intersections)	LIFE CYCLE (years)	Obsolete	10+ years past	6-10 Years past	0-5 years past	L	0-5 Years left	6+ years left	Total
Abutment	10	4	—	21	482	F	74	15	89
LED Displays	5	7	—	—	—	E	200	—	200
Controller/Monitor	5	4	—	11	259	E	488	—	492
Unit	20	2	100	10	482	C	74	6	80
3 Pole	20	2	—	—	—	Y	—	—	2
Signal Housing	5	—	460	—	—	C	462	—	462
Communication Signal	20	—	211	—	380	C	—	—	591
Communication Signal (1)	20	—	327	—	—	L	—	—	327
AV Communication	20	2	—	—	—	E	—	—	2

Prioritization of the traffic signal backlog is primarily a function of age. Each component has a specific lifecycle associated with it. The replacement of these components is assumed – for costing purposes – to include the upgrade in functionality needed to achieve the operating benefits of a modern signaling system.

It is also important to note that Communications Signal replacements can be one of two types: wireless or fiber optic. Each intersection requires one form of signal communication; however certain locations are unsuitable for wireless communication and fiber optic technology is necessary. The prioritization of the components of the traffic signaling system is depicted in the following table.

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TRAFFIC SIGNALS – BACKLOG PRIORITIZATION (# of intersections)				
	Priority 1	Priority 2	Priority 3	Total
Cabinets	210	482	—	692
LED Displays	210	250	256	716
Controller/Monitor	175	266	—	441
Wiring	145	311	482	938
Steel Pole	45	—	—	45
Signal Timing	100	250	107	457
Communication Signal (Wireless)	211	30	—	241
Communication Signal (Fiber Optic)	327	—	—	327
Communications (CCTV)	21	—	—	21

The overall cost of eliminating the backlog in the traffic signals system is \$60.1 million. This cost includes both the replacement of the individual components listed above and the upgrades needed to introduce the traffic management capabilities described above.

TRAFFIC SIGNALS – BACKLOG COST (\$millions)				
	Priority 1	Priority 2	Priority 3	Total
Cabinets	\$3.8	\$8.7	\$0.0	\$12.5
LED Displays	\$3.8	\$4.0	\$4.6	\$12.4
Controller/Monitor	\$1.1	\$1.1	\$0.0	\$2.2
Wiring	\$1.2	\$1.8	\$3.9	\$6.9
Steel Pole	\$1.3	\$0.0	\$0.0	\$1.3
Signal Timing	\$0.7	\$1.0	\$0.4	\$1.9
Communication (Wireless)	\$1.3	\$0.3	\$0.0	\$1.6
Communication (Fiber Optics)	\$18.6	\$0.0	\$0.0	\$18.6
CCTV Communications	\$0.4	\$0.0	\$0.0	\$0.4
TOTAL	\$31.7	\$19.5	\$8.9	\$60.1

State of the City's Infrastructure

STREET LIGHTS

Street lights perform an important public safety function. By lighting roadways and crosswalks, they provide drivers with improved visibility of signs and pedestrian activity. Street lights also improve security on the streets by lighting sidewalks and their periphery.

The recent rise in energy prices has focused attention on the efficiency and effectiveness of street lighting programs around the country. Some towns have shut down their street lights completely in order to save electricity costs. Others – like the City of Santa Rosa in California - have instituted “adopt-a-street-light” programs that provide residents or businesses with the option of directly funding individual street lights.



STREET LIGHT AT CENTENNIAL OLYMPIC PARK

Many cities are seeking new technologies that will reduce the energy consumption of their street light programs. LED and other bulb technologies can reduce energy consumption by more than 50%. The City of Anchorage Alaska has recently approved a \$2.2 million program to replace all of their street lamps with LED bulbs, which will save \$360,000 per year in energy expenses. The City of Ann Arbor in Michigan is installing motion detector systems that shut down lights when no one is nearby. Solar powered street lights are also available and they are in increasing use in southern and western states. With street light energy costs constituting between 50 and 75% of some city power bills, the efficiency of street lighting programs is receiving significant scrutiny.

There are a total of 50,734 street lights in the City of Atlanta. Of these, the City owns and operates 13,920 lights and leases the remaining 36,814 lights from Georgia Power. The City pays the energy bill for the street lights owned by Georgia Power, and also pays a flat annual rate of \$3.96 per light for re-lamping of city-owned lights by Georgia Power. The City's total annual energy bill for street lighting is \$7.4 million. The City almost exclusively uses High Pressure Sodium Vapor lights which are relatively low cost to operate.

Of the 13,920 lights owned by the City, 861 (or slightly over 6%) are missing and classified as “Absent”. Another 2,950 have wiring that is six to ten years past lifecycle. Approximately 2,230 lights need to be repainted.

STREET LIGHTS BACKLOG (#)	LIFE CYCLE (years)	ABSENT*	6 – 10 years past	0 – 5 years past	L I F E C Y C L E	0 – 5 years left	6 – 10 years left	TOTAL
100	50		200	200			200	400
100	50			200			200	200
100	50			200			200	200
100	50			200			200	200

State of the City's Infrastructure

The replacement of the lights classified as "absent" is considered a high priority. It is also a high priority to repaint 2,230 street lights. Lack of paint not only significantly decreases the lifespan of these lights but also leaves the impression that the City does not maintain its infrastructure and invites vandalism.

Replacement of the 2,950 poles that are six to ten years past lifecycle is ranked as Priority 2. Finally, the 2,950 poles and the 2,036 lights with wiring that is past lifecycle by up to five years is rated as Priority 3.

STREET LIGHTS – BACKLOG PRIORITIZATION (#)				
	Priority 1	Priority 2	Priority 3	Total
Wiring		2,950	2,036	4,986
Poles	230		2,950	3,180
Repaint	625			625
Total	2,240			2,240

The total cost to eliminate the entire backlog in street lights is \$10 million. The cost to eliminate the Priority 1 backlog is \$2 million.

STREET LIGHTS – BACKLOG COST (\$ millions)				
	Priority 1	Priority 2	Priority 3	Total
Wiring	\$0.0	\$3.0	\$2.0	\$5.0
Poles	\$0.2		\$3.0	\$3.2
Repaint	\$0.5			\$0.5
Total	\$1.3			\$1.3
TOTAL	\$2.0	\$3.0	\$5.0	\$10.0

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SCHOOL FLASHERS

There are a total of 110 school flashers in the City of Atlanta. Their primary purpose is to regulate traffic speed in order to provide a safe environment for children walking to school.

All 110 of the City's school flashers are due for replacement. In fact, most of the components of the school flasher inventory are more than 10 years past their lifecycle.

The total cost to replace these school flashers is \$0.7 million.



SCHOOL FLASHER

SCHOOL FLASHER- BACKLOG INVENTORY (#)	LIFE CYCLE	ABSENT	10+ years past	6 - 10 years past	0 - 5 years past	L I F E C Y C L E	0-10 Years left	TOTAL
Control	5	0	0	0	75		0	75
Control/Assemblies	10	110	0	0	0		0	110
Control Box / Signal	10	0	108	0	2		0	110

SCHOOL FLASHERS - BACKLOG PRIORITIZATION (#)	Priority 1	Priority 2	Priority 3	Total
Control	35	75	0	110
Control/Assemblies	110	0	0	110
Control Box / Signal/Assembly / Wiring	110	0	0	110

SCHOOL FLASHERS - BACKLOG COST (\$ millions)	Priority 1	Priority 2	Priority 3	Total
Control	\$0.0	\$0.0	\$0.0	\$0.0
Control/Assemblies	\$0.4	\$0.0	\$0.0	\$0.4
Control Box / Assembly / Wiring	\$0.4	\$0.0	\$0.0	\$0.4
TOTAL	\$0.7	\$0.0	\$0.0	\$0.7

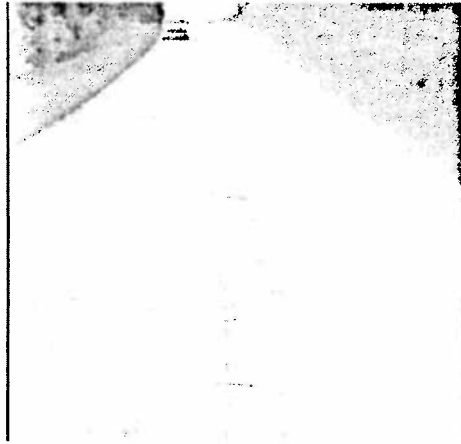
State of the City's Infrastructure

PAVED STREETS

Paved streets constitute the largest segment of the City's General Fund infrastructure inventory. There are 1,705 miles of paved streets in the City of Atlanta that are the responsibility of the City to maintain (state roads are not included in this analysis, nor have unpaved roads been included). The City classifies



PAVED STREET WITH WATER DAMAGE



PAVED STREET WITH CRACKING

streets using five categories as outlined in the table below. Over 75% of the City's street network is residential. Each category of street has its own anticipated lifecycle; arterial and collector streets - which receive heavier traffic volumes and more truck traffic - will wear out more rapidly than those in residential areas.

STREET TYPE CATEGORIZATION	CLASSIFICATION CRITERIA	# of MILES	LIFE CYCLE (years)
Arterial streets	A multilane street that functions to move traffic from one district of the city to another and which is not designed to serve individual residences.	158	10
Collector streets	A multilane street that functions to move traffic from residential street to arterial streets.	242	15
Residential streets	A street that provides frontage for access to residential lots and carries traffic to and from adjoining residential access streets. Traffic generally has origin or destination in the immediate neighborhood.	1,298	20
Industrial Areas	Streets in industrial areas that carry extreme axial loadings as a result of increased tractor-trailer volumes.	7	10
Unpaved streets	Gravel and/or dirt streets that require routine maintenance (adding new material, shaping, & ditch cutting) on a quarterly basis and after each heavy rain.	15	n/a

Prior to this study, there were no data available for streets that had not been resurfaced in the past twenty years. The Department of Public Works (DPW) recently created a database that combined the data on street segments that have been resurfaced over the past twenty years, with a GIS dataset of the total inventory of paved streets. This new database now captures the resurfacing activity over the past twenty years for the entire paved street network and serves as the basis for the analysis.

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Overall, 796 miles of streets – or 47% of the City's total street inventory - is past its resurfacing lifecycle. Nearly 85% of the streets that are past lifecycle are residential streets. This is despite the fact that the city repaved 242 miles of residential streets, 73 miles of collector streets, and 55 miles of arterial streets over the last five years. The over-representation of residential streets in the backlog reflects the priority the City has generally given priority to arterial and collector streets in its repaving programs. Only 26% of collector streets are past their lifecycle as opposed to 52% of residential streets.

PAVED STREETS										
– BACKLOG	LIFE	10+	6 – 10	0 – 5		0-5	6-10	11-15	16-20	
INVENTORY	CYCLE	year	years	years		years	years	years	years	
(miles)	(years)	past	past	past		left	left	left	left	TOTAL
Arterial	10	7	6	39	L I F E C Y C L E	51	55	—	—	106
Collector	15	11	18	3		4	60	73	—	147
Residential	20	225	225	99		107	199	87	242	695
Unimproved	10	2	1	2		1	1	—	—	4
Total		245	250	301		197	314	155	242	1705

Of the 796 miles of streets that exceed lifecycle, approximately 245 are considered Priority 1 for replacement. [Note: since we do not have accurate data on the resurfacing age of nearly 675 miles of residential streets, they have been divided evenly among the “past lifecycle” categories. It is entirely likely that by doing so we are overestimating the quality of the residential street network and therefore understating the Priority 1 need. They are all, however, included in the backlog.] These are roads that are in urgent need of repaving and which drive an inordinate number of pothole complaints and lawsuits requesting damages for repairs associated with potholes and other street defects.

PAVED STREETS – BACKLOG PRIORITIZATION (miles)				
	Priority 1	Priority 2	Priority 3	Total
Arterial	7	1	30	38
Collector	11	11	34	56
Residential	241	225	99	565
Unimproved	2	1	2	5
TOTAL	245	250	301	796

The cost to replace roadways varies by type. Streets that are more heavily trafficked require more expensive materials and labor inputs. Residential streets also tend to be narrower than arterial or collector streets and are therefore less expensive to resurface. Overall, it can cost anywhere from \$250,000 to \$800,000 to replace a mile of roadway in the City. The following table below provides the costs used to estimate replacement expenses for the four types of roads under consideration.

State of the City's Infrastructure

PAVED STREETS – BACKLOG COST PER MILE OF CONSTRUCTION

Arterial	\$ 800,000/Mile for 60' wide streets
Collector	\$ 650,000 /Mile for 48' wide streets
Industrial	\$ 680,000/Mile for 50' wide streets
Residential	\$ 250,000 /Mile for 26' wide Streets

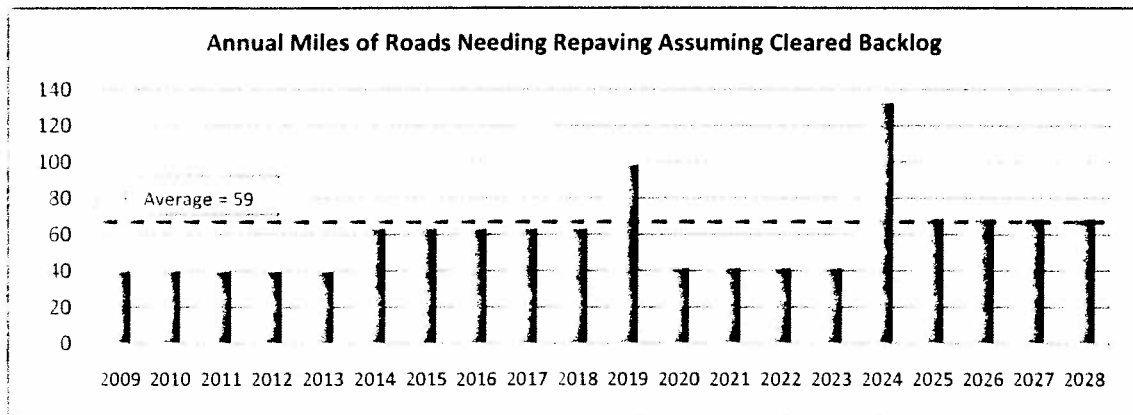
Based on this analysis, the total cost to eliminate the repaving backlog is \$255.4 million. Replacing the Priority 1 backlog will cost around \$70.4 million.

PAVED STREETS – BACKLOG COST (\$ millions)

	Priority 1	Priority 2	Priority 3	Total
Arterial	\$5.6	\$4.8	\$31.2	\$41.6
Collector	\$7.2	\$11.7	\$22.8	\$41.7
Industrial	\$1.4	\$0.7	\$1.4	\$3.5
Residential	\$56.3	\$5.2	\$56.3	\$117.8
TOTAL	\$70.4	\$22.4	\$111.6	\$255.4

The City has made significant progress in repaving its street network in recent years. Approximately 370 miles of streets have been repaved in the past ten years, due primarily to funding made available through the Quality of Life Bond Program approved by voters in 2000. This repaving effort has helped reduce pothole complaint volumes by approximately 60% and reduces the City's liability to damage caused by streets in disrepair.

Despite that progress, the rate of street repaving is significantly lower than the rate needed to keep streets from extending past their useful lives. As the chart below indicates, even if the City clears its backlog of 796 miles of streets, it would still have to resurface streets at the rate of nearly 60 miles per year to avoid the accumulation of another backlog.



State of the City's Infrastructure

SIDEWALKS

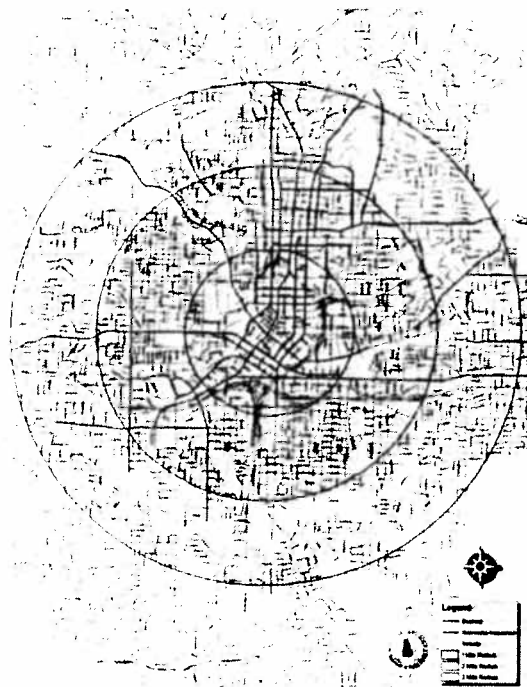
Sidewalks constitute one of the largest segments of our capital inventory, yet little is known about them. The actual total length of sidewalks in the City of Atlanta is unknown. Their age and quality is also unknown. Based on constituent complaints, we know that many of our sidewalks are in poor condition, yet it is a challenge to estimate what the true capital requirements are.

An additional complicating factor is that by City code the maintenance of sidewalks is the responsibility of the abutting property owners. The Commissioner of Public Works is authorized to cite a property owner for failure to maintain a sidewalk and - if property owner fails to comply - can order the repairs and bill the owner for the cost. However, it has been City policy not to site property owners unless funding is available to execute the repairs; since funding has not been available in recent years, few citations have been issued.



CITY SIDEWALK - MIDTOWN

Sidewalk Inspections



Total sidewalk miles have been estimated with the assistance of the Department of Planning & Community Development/Office of Transportation Planning and of Dr. John Peponis & Martin Scoppa of Georgia Institute of Technology. Based on their analysis, we estimate that there are 2,158 miles of sidewalks in the City.

There is no comprehensive assessment of the current condition of those sidewalks. To estimate that condition, data from a 2004 DPW pothole study was used to construct sample data on sidewalk defects. In this study, sidewalks assessments were conducted at randomly selected areas within a three mile radius of downtown Atlanta. This target area was divided into three zones and the rate of sidewalk defects identified.

Based on this survey, sidewalk defect rates vary considerable by geography. Those in the downtown area designated Zone 1 (blue inner circle in diagram) had a defect rate of

6.6%. Sidewalks in the areas farthest from downtown – designated as Zone 3 (yellow outer circle in diagram) had a defect rate of 18.9%. Neighborhoods between those two areas designated as Zone 2

State of the City's Infrastructure

(green circle in diagram) had the highest defect rate (21%). Based on the sample areas, the weighted average defect rate for the City overall is 18.3%.

While less accurate than what a comprehensive census of the sidewalks in the City would produce, this approach yields a reasonable estimate of the condition of the existing sidewalk infrastructure.

When the weighted average defect rate of 18.3% is applied to 2,158 miles, the result is an estimated 395 miles of defective sidewalks.

Since curbs are co-located with sidewalks, curb replacement needs are estimated by applying a 10% defect rate to the total sidewalk miles. The replacement of sidewalk ramps is estimated at 4 ramps per 500 feet of sidewalk (roughly equivalent to a block). Additionally, many corner ramps are in need of replacement in order to make them compliant with the Americans with Disabilities Act (ADA) standards. See Appendix A for a discussion of the methodology employed to estimate costs to replace sidewalk ramps.

Based on these cost assumptions, we estimate that the total cost of replacing defective sidewalks is \$79.4 million. This cost includes the replacement of the sidewalks themselves, related curbing and sidewalk ramps, and a 10% charge for incidental fees.

SIDEWALKS – BACKLOG INVENTORY & COST					
	Total Inventory (miles)	Estimation Rate	Backlog	Backlog Unit Cost (unit cost \$)	Total Cost (\$ millions)
Sidewalk	2,158	18.3%	395 miles	\$116,800 per mile	\$46.9
Curbing	2,158	10%	40 miles	\$12,700 per mile	\$5.3
Sidewalk Ramps	2,800	4 ramps per 500 feet	16,640 ramps	\$1,200 per ramp	\$20.0
Incidental (professional fees, etc.)	N/A	10%	N/A	N/A	\$7.2
TOTAL					\$79.4

State of the City's Infrastructure

BRIDGES

The Department of Transportation claims that over 25% of the nation's bridges are functionally obsolete or structurally deficient. Over 20% of Georgia bridges are similarly rated. Of the 157 bridges in the City of Atlanta, 18 bridges (or 11%) are rated as functionally obsolete or structurally deficient. As we witnessed with the bridge collapse on I35 in Minneapolis, allowing bridges to deteriorate can have catastrophic consequences.

The City is responsible for the maintenance of all bridges in the public right-of-way within the City limits even if a bridge's construction was funded by another government entity.



BRIDGE AT FREEDOM PARKWAY

All bridges are inspected and graded (i.e. given a "sufficiency rating") every two years by the Georgia Department of Transportation (GDOT). GDOT considers bridges with a sufficiency rating less than fifty (50) as candidates for replacement. Additionally, GDOT assigns the following actions codes to the sub structure of bridges: Immediate, Schedule, Monitor, and No Action.

For the purposes of this analysis, bridges rated below 30 are considered Priority 1 for replacement. Bridges rated between 30 and 50 are considered Priority 2. For a listing of bridges with sufficiency ratings of 50 or below, see Appendix B.

Overall, the City has eight bridges that have been rated by GDOT at or below 30 and these would be candidates for immediate replacement. A further 10 bridges are rated between 30 and 50, which suggests that their replacement should be considered in the short term.

BRIDGES – TOTAL INVENTORY BY SUFFICIENCY RATING		GDOT Sufficiency Rating	No. of Bridges
Unacceptable		0-30	8
Poor		31-50	10
Fair		51-75	52
Good		75-100	87
			TOTAL : 157

The total cost to complete the work on these bridges is estimated to be \$162 million. Approximately \$72 million is required to replace the eight bridges rated Priority 1.

BRIDGES – BACKLOG COST (\$ millions)	Replace Bridges (#)	Cost
Priority 1 (Sufficiency Rating 30 or below)	8	\$72.0
Priority 2 (Sufficiency Rating between 31 and 50)	10	\$90.0
TOTAL	18	\$162.0

State of the City's Infrastructure

Operational Infrastructure

FLEET

The Office of Fleet Management is responsible for over 5,241 units of rolling stock, of which 3,333 are operated by General Fund departments and 1,908 by Enterprise Fund departments (Department of Watershed Management and Department of Aviation). Fleet includes everything from fire trucks to back hoes.

The current depreciated value of the existing General Fund fleet inventory is approximately \$45 million.



APD POLICE CRUISER

About 55% of the fleet is older than its established lifecycle.

Despite recent investments in motorized equipment – the City has invested \$38.4 million in new fleet in the last three years – a substantial backlog persists. The chart below shows how this backlog is distributed across departments.

MOTORIZED FLEET – BACKLOG			
INVENTORY	TOTAL INVENTORY	TOTAL BACKLOG	% BACKLOG
Atlanta Police Department	1105	640	58%
Public Works	723	347	48%
Atlanta Fire & Rescue	542	316	58%
Atlanta Recreation & Cultural Affairs	549	312	57%
Executive Offices	248	163	66%
Planning & Community Development	120	4	3%
Public Department	46	36	78%
TOTAL	3,333	1,818	55%

Of the 1,818 units that are past lifecycle, 100 are more than 10 years old. This equipment has been rated as Priority 1 for replacement. The 487 units that are 5-10 years past lifecycle are rated as Priority 2. The remaining 1,231 are rated as Priority 3. The next table shows the break down by department.

MOTORIZED FLEET – BACKLOG				
PRIORITIZATION	PRIORITY 1 (>10 yrs past lifecycle)	PRIORITY 2 (5-10 yrs past lifecycle)	PRIORITY 3 (<5 yrs past lifecycle)	TOTAL BACKLOG
Atlanta Police Department	13	167	460	640
Public Works	11	112	224	347
Atlanta Fire & Rescue	34	67	215	316
Atlanta Recreation & Cultural Affairs	20	65	227	312
Executive Offices	22	68	73	163
Planning & Community Development	–	–	4	4
Public Department	–	8	28	36
TOTAL	100	487	1,231	1,818

State of the City's Infrastructure

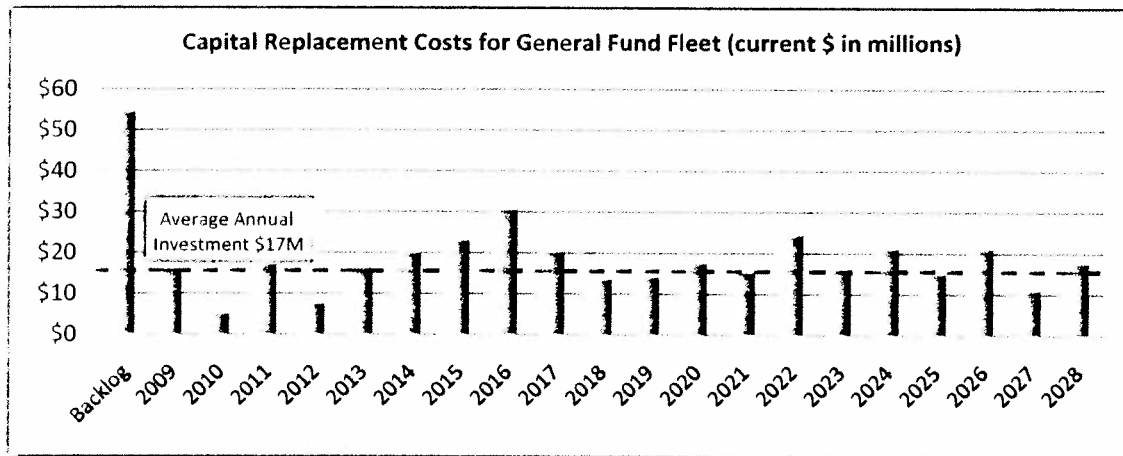
The cost to eliminate the entire backlog is nearly \$55 million.

MOTORIZED FLEET – BACKLOG COST	PRIORITY 1 (\$ millions)	PRIORITY 2 (\$ millions)	PRIORITY 3 (\$ millions)	TOTAL BACKLOG COST
Atlanta Police Department	\$0.4	\$4.2	\$10.5	\$15.1
Public Works	\$0.4	\$6.2	\$13.3	\$19.9
Atlanta Fire & Rescue	\$0.5	\$1.4	\$4.7	\$6.6
Parks, Recreation & Cultural Affairs	\$0.8	\$2.9	\$2.7	\$6.4
Executive Offices	\$1.0	\$2.6	\$1.7	\$5.3
Planning & Community Development	--	--	\$0.1	\$0.1
Other Departments	--	\$0.4	\$0.6	\$1.0
TOTAL	\$3.1	\$17.7	\$33.6	\$54.4

The graph below indicates the level of annual investments that is needed to replace fleet units on a timely basis and avoid a future replacement backlog. The first bar shows the cost of replacing the backlog fleet inventory in the General Fund as \$54.4 million. Assuming that replacement occurred, the following bars show what additional investment would be required each year to replace fleet units as they reach the end of their respective lifecycles. While the cost in any given year will vary depending on which vehicles are due for replacement that year, on average the City should be spending approximately \$17 million each year on fleet replacement.



BUILDING INSPECTION VEHICLE



It should further be noted that these capital investments will be offset to a significant degree by reductions in fleet maintenance expenses. The City currently spends approximately \$14 million each year to maintain its fleet. Replacing vehicles on the appropriate schedule would ensure that many will be replaced prior to the expiration of their warranty, thus reducing the need to maintain them in-house. Leasing and other purchasing arrangements can also reduce the need for internally provided maintenance.

FACILITIES

Well-designed and maintained public buildings are critical to the efficient delivery of public services. The design of the physical structures within which people work has a significant impact on their productivity and morale. The age and condition of facilities also determines how efficiently energy and other resources are used.

The City of Atlanta's General Fund departments are supported by two types of facilities: general office buildings (e.g., City Hall, Jackson Justice Center) and field operations facilities (e.g., fire stations, police precincts, recreation centers). Overall, the City manages over 3.7 million square feet of space in support of its General Fund departments.



LENWOOD A. JACKSON, SR. JUSTICE CENTER

Like other categories of infrastructure, facilities have lifecycles. These lifecycles are generally based on the type and quality of materials employed in the construction of the facility combined with the intensity of use over time. These lifecycles are further affected by the consistency and quality of their on-going maintenance. For the purposes of this analysis, lifecycles for most of the City's buildings have been derived using industry standards and/or direct knowledge of the expectations of the builder. For other facilities – such as the City Hall Tower and the Detention Center – specific capital infrastructure needs have been identified based on analysis provided by the Office of Facilities Management.

In recent years the City has made significant investments in upgrading the quality of its general office buildings. Since 2005, over \$140 million has been invested in a public safety headquarters, public safety annex, 911 call center, data center for the Department of Information Technology, office space for the Department of Parks, Recreation and Cultural Affairs, and a City Hall parking deck. A further \$60 million has been spent on fire stations, recreational centers and police facilities.

In addition to providing operational efficiencies and service improvements, these investments have enabled the consolidation of the operations of the City's judicial agencies – which eliminated the need to maintain two court buildings and some leased office space - and will allow the City to vacate the City Hall East complex over the course of the next year. With the subsequent sale of that building, the City will eliminate a large capital asset well past its lifecycle and in need of significant capital upgrades and with it approximately \$2.1 million in annual maintenance costs. The City will also significantly upgrade its 911 communications center and its main data center.

Despite these investments, there remains considerable capital needs in the other facilities assets of the City. These facility requirements are described in the next sections.

State of the City's Infrastructure

FACILITIES – PARKS & RECREATION

The Department of Parks, Recreation and Cultural Affairs (DPRCA) is responsible for the maintenance of 345 parks. Of these, eight are designated as regional parks, 13 as community parks, 50 as neighborhood parks and nine as large nature preserves. The rest of the parks are generally categorized as small preserves, block parks, circles, triangles and beauty spots.

Unlike elements of other types of public infrastructure, parks are not “replaced” in accordance to established lifecycles. Instead, parks have capital elements within them that must be maintained and replaced at regular intervals. Each park has a unique set of capital assets, and as a result it is necessary to inventory those assets and track them individually.



PIEDMONT PARK

Overall, there are 36 recreation centers and 112 playgrounds that the Department is responsible for maintaining. Of the 36 recreation centers, 13 are currently past lifecycle (see Appendix C for an assessment of the existing recreational centers). Approximately 42 playgrounds are due for replacement.

PARKS FACILITIES – BACKLOG INVENTORY	LIFE CYCLE (years)	10+ year past	6 – 10 years past	0 – 5 years past	L I F E C Y C L E	0-5 years left	6-10 years left	11-15 years left	16-20 years left	20 + years left	TOTAL
Recreation Centers	40	0	1	3		7	7	2	2	6	34
Playgrounds	35		21	21		21	26	21			117

In general, it costs \$325/sq foot to build a new recreation center. Play grounds generally cost \$50,000 to build. Therefore, the cost to eliminate the backlog in parks facilities is estimated to be \$28.4 million.

CAPITAL NEEDS IN PARKS FACILITIES			
(\$ millions)	Unit Cost	Backlog	TOTAL COST
Recreation Centers	\$325/sq ft	34	\$11,050
Playgrounds	\$50,000 each	117	\$5,850
TOTAL			\$28.4

State of the City's Infrastructure

FACILITIES – DETENTION CENTER

The Detention Center was completed in 1994. It contains approximately 1,300 cell beds, kitchen and other support facilities, office space, and electronic security systems. Based on a recent assessment of the center's facilities needs, \$3.8 million in capital investments have been identified. These include: the replacement of old kitchen equipment; upgrade of security systems including the Sally Port doors (for cars); the loading dock gate and the electronic security system; upgrade of the simplex fire system; upgrade of the laundry equipment; replacement

of the Property Room's conveyor system; major repair of two elevators; and various structural repairs due to plumbing leaks. Of secondary importance are renovations of the front lobby, replacement of soon-to-be obsolete lighting fixtures, and installation of new water backflow preventers to repair leaks.



CITY OF ATLANTA DETENTION CENTER

FACILITIES – CITY HALL COMPLEX

The City Hall complex is comprised of two major buildings: the "Tower" was completed in 1930; an Annex was added in 1989.

Although the Tower is technically past its lifecycle, there is no expectation that it will be demolished and replaced as other facilities typically are. Instead, due to its architectural and historic significance, a program of renovations and major systems replacement is needed. An estimated \$3.4 million in capital repairs have been identified. These include an upgrade of the cooling tower, waterproofing in the Tower, and an upgrade of security (including replacement of entry x-ray scanners, access control systems & CCTV). Additional repairs include the modernization of the freight elevators and HVAC system upgrades.



CITY HALL

FACILITIES – FIRE STATIONS



FIRE STATION FIVE

There are 31 active fire stations in the City (excluding stations at the airport). Since 2001 the City has closed one fire station (Station 7) in the West End and opened a new Fire Station (Station 36). There are an additional four fire stations under development that will open in 2009 and 2010. Overall, the City has allocated about \$10.2 million since 2001 in building or renovating fire stations.

Over \$56 million in Priority 1 and Priority 2 capital investment needs have been identified for fire stations and related facilities.

State of the City's Infrastructure

The stations listed below as Priority 1 and 2 are past their designed lifecycles and have been designated by AFR as candidates for immediate replacement. Priority 1 stations are actually decades past their life cycle. Departmental cost-benefit analyses indicate that it is more cost effective to replace these stations than to renovate and upgrade them. 16 stations are past lifecycle and each is estimated to require \$3 million with a total cost of \$48 million. See Appendix D for a list of all active fire stations by lifecycle.

FIRE FACILITIES – BACKLOG INVENTORY	LIFE CYCLE (years)	10+ years past	6 – 10 years past	0 – 5 years past	L I F E C Y C L	0-5 years left	6-10 years left	11-15 years left	16-20 years left	20 + years left	TOTAL
Fire Stations	30	1	3	8		2	1	2	2	1	9

FIRE FACILITIES – BACKLOG COST (\$ millions)	Priority 1	Priority 2	Priority 3	Total
Fire Stations	\$15.0	\$30.0	\$24.0	\$69.0

FACILITIES – POLICE FACILITIES

There are a total of twenty-seven police facilities in the City. The major facilities are the six zone precincts (each populated by approximately 120 officers and detectives), the SWAT/Firing Range, and the Policy Academy. The remaining facilities include small mini-precincts, the Police Athletic League building, and a few offices for detectives.

Industry standards recommend 15,000 – 20,000 square feet for every 100-125 officers. However, most APD precincts are only one-quarter of that size. Operational efficiency is optimized when officers and detectives are co-located

but few of the existing facilities can accommodate that. Many of these precincts lack adequate bathroom facilities, locker or shower facilities, conference rooms, break rooms and secure parking.



ZONE FIVE POLICE PRECINCT

Zone 2, 5 and 6 precincts are currently leased facilities. Zone 3 and 4 precinct are city-owned facilities of 3,700 square feet and 3,000 square feet respectively. However, each is only 20% of the required size to support operations at their respective locations. Further, SWAT officers currently operate in substandard trailers that are over 35 years old. The firing range, which is adjacent to the SWAT precinct, is used by all APD officers for weapons qualification annually. It is also used by officers from other jurisdictions throughout the State of Georgia and the Federal government. The range equipment is in need of replacement and significant upgrades, including the target system the shoot house foundation.

APD FACILITIES – BACKLOG COST (\$ millions)	COST
SWAT/Firing Range	\$2.0
Zone 2, 3, 4 and 6 Precincts	\$12.0
TOTAL	\$16.0

State of the City's Infrastructure

FACILITIES – CONSOLIDATED PUBLIC SAFETY TRAINING FACILITY

Atlanta's public safety agencies include the Atlanta Fire Rescue Department, Atlanta Police Department, and Department of Corrections. Each agency is responsible for maintaining its sworn and non-sworn employees trained to Georgia Peace Officer Standards and Training (P.O.S.T.) standards. However, the city faces the potential loss of the grounds and facilities housing two training academies, three in-service training sites, and the APD Special Operations Section and Crime Lab.

The City of Atlanta's public safety agencies face a critical need for new training facilities due to recent decisions made by the owners of those current facilities:

- The Atlanta Police Department (APD) and Atlanta Fire Rescue (AFR) have separately received notice from Atlanta Public Schools (APS) that the buildings housing their respective training academies have been placed on the market for sale.
- The Department of Corrections (DOC) conducts their required in-service training at Fulton County Public Safety Training Center (FCPSTC) and City Hall East. FCPSTC has requested DOC vacate their offices.
- APD's Special Operations Section (SOS) and crime lab are presently located in the same building as the police training academy.

A recent City of Atlanta Task Force recommended that the City purchase the current APD training facility from APS, while continuing to lease AFR's training facility. In the event that AFR's leased facility is sold, then AFR could consolidate with APD in the short-term. However, the optimal solution for the long term - and the one that both minimizes displacement risk and has the potential for revenue generation - is the construction of a 67,000 sq. ft. consolidated training facility to serve all of the City's public safety agencies.

PUBLIC SAFETY TRAINING FACILITIES – BACKLOG PRIORITIZATION & COST (\$ millions)				
	PRIORITY 1	PRIORITY 2	PRIORITY 3	TOTAL COST
Lease & upgrade current APD facility & consolidate with AFR	\$5.0	—	—	\$5.0
Build new consolidated facility at Key (for APD, AFR & DOC)	—	\$23.0	—	\$23.0
TOTAL	\$5.0	\$23.0	—	\$28.0

State of the City's Infrastructure

SUMMARY AND RECOMMENDATIONS

The City has a total public and operational infrastructure backlog of \$750 million. Approximately 36% of that total - \$266 million – has been rated as having a Priority 1 replacement requirement. Paved streets and bridges account for 56% of the total capital backlog.

BACKLOG REPLACEMENT COSTS (\$ millions)				
COMPONENTS	PRIORITY 1	PRIORITY 2	PRIORITY 3	TOTAL
Paved Streets	\$70	\$73	\$112	\$255
Bridges	\$72	\$90	\$0	\$162
Facilities	\$59	\$44	\$24	\$128
Sidewalks	\$26	\$26	\$26	\$79
Traffic Signals	\$32	\$19	\$9	\$60
Fleet	\$3	\$18	\$34	\$54
Street Lights	\$2	\$3	\$5	\$10
School Flashers	\$1	\$0	\$0	\$1
TOTALS	\$266	\$274	\$210	\$750

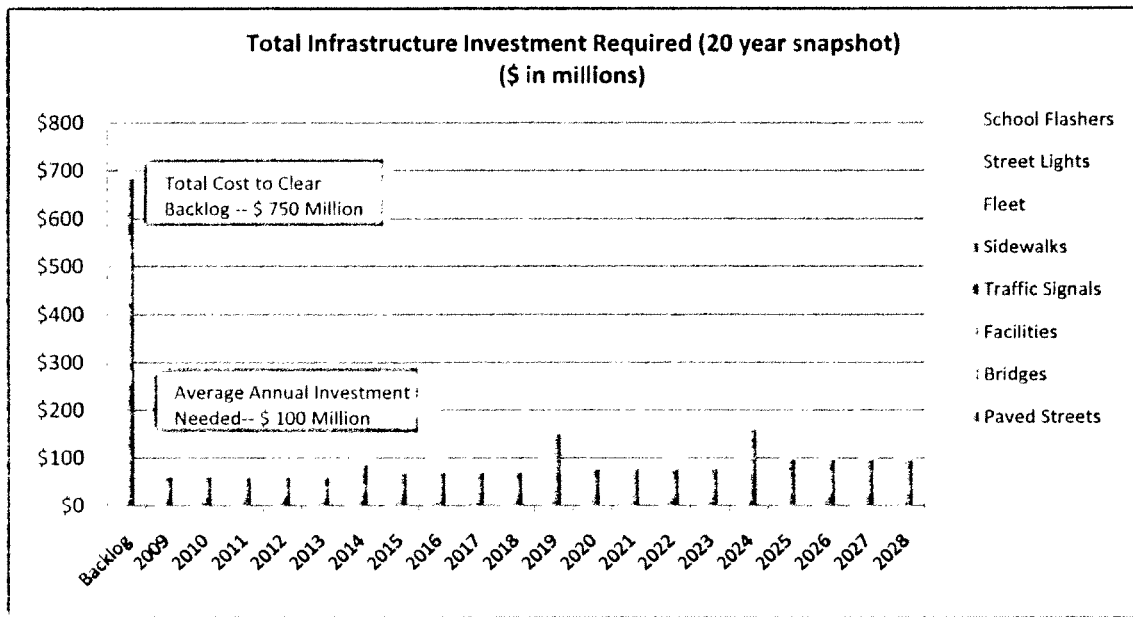
Note: All costs listed in the table above are rounded to the nearest \$million.

The City averages around \$50-60 million in capital investment each year. This is comprised of the City's annual capital budget of about \$40 million plus an additional \$10-20 million contained within the General Fund operating budget. A significant portion of this funding is dedicated to new (rather than replacement) capital, so not all of it is dedicated to reducing the capital backlog.

How much money should the City spend on capital each year? This question needs to be answered in two parts. First, the City needs to eliminate its backlog of capital. The \$750 million backlog documented above is not stagnant; each year components of the City's capital inventory age and move past their lifecycle. Absent investments, the backlog will grow.

Second, even if the backlog is eliminated, the City needs to replace capital as it ages. As the next chart indicates, the City should be investing approximately \$100 million each year in its existing capital infrastructure. That level of financing would allow the City to replace its capital asset base in a timely manner. The consequence will be higher productivity and lower on-going maintenance costs.

State of the City's Infrastructure



These investments are required to replace and maintain our existing capital infrastructure assets; the analysis assumes no growth in that infrastructure. Of course, as the City grows and new capital assets are added – new bridges, new roads, new transit, etc – this infrastructure requirement will grow commensurately.

FINANCING STRATEGIES

Public infrastructure is funded at the federal, state and local levels. The Federal government invests about \$75 billion per year and participates significantly in the construction and maintenance of waste water systems, mass transit systems and interstate highways. State and local governments are generally responsible for drinking water systems, local roads and bridges, and parks and greenspace. Overall, State and Local governments provide 75% of the funds for public infrastructure.

Federal funds are allocated either directly to projects or are distributed to state governments where it is then allocated to specific initiatives. Direct “earmarks” are also used with increasingly frequency (although Georgia ranks 44th in the nation in earmarks per capita with only \$20 per year per resident).

There are proposals currently under consideration in Congress to create new sources of infrastructure funding – either through a national infrastructure bank or some other mechanism. Efforts are also underway to re-orient Federal investments in infrastructure to shift funding to higher priority needs. Nevertheless, local governments such as the City of Atlanta are well advised to plan for their future infrastructure needs in the absence of an expectation of new Federal funding.

In general, local governments in Georgia have limited options for financing infrastructure. With little to no Federal and State infrastructure dollars available, the primary resource for the City of Atlanta has been its general fund revenue base, either through direct appropriations, Tax Allocation Districts, or general bond referenda.

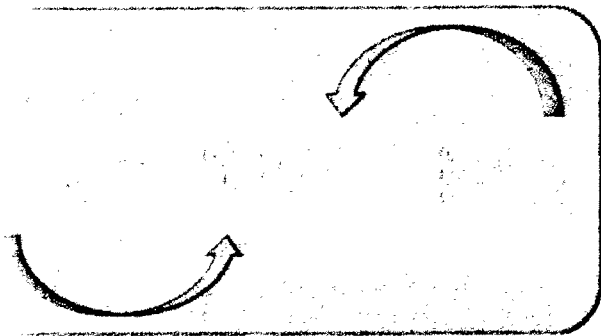
State of the City's Infrastructure

Given the magnitude of the City's infrastructure deficit and the increasing demands placed on that infrastructure, the Administration recommends a structural change in the way the City funds its infrastructure. First, we recommend that the City create a Capital Replacement Revolving Fund (CRRF) that will serve as the central financing mechanism for general fund capital needs. This fund would be financed through the following potential revenue sources:

- Existing (restricted and unrestricted) capital sources (LARP, PIF, Impact Fees, etc)
- Receipts from sales of capital assets
- Receipts from other "one-time" events
- Funds provided by Federal or State government
- Annual General Fund appropriation (including the capture of operating savings achieved through capital investments)
- General bond referenda
- Other

While all of these sources of revenue can make a contribution towards the reduction of the infrastructure deficit, the primary source of funds needs to be general bond referenda. These referenda need to

become regular, cyclical events that replenish the CRRF on a regular basis.



The primary purpose of the CRRF is to rebalance the City's priorities and concentrate more attention and resources on its capital needs. The City's traditional focus on its operating budget has led directly to the infrastructure deficit and ultimately to a lower return on its investment in those operations. City

departments cannot deliver services efficiently and effectively if the infrastructure needed to deliver those services is in a deteriorated condition.

The first step in addressing this imbalance is to begin a process for eliminating our infrastructure backlog. We recommend placing on the ballot in 2009 a general bond referendum of \$250 million. A referendum of that amount would address approximately one-third of our infrastructure deficit. It is an important first step in dealing with the long-term challenge we face.

Our proposal is to direct this first tranche of funding toward those portions of our infrastructure backlog most directly impacting public safety – bridges, traffic signal systems, fleet and public safety facilities, streets and sidewalks. Bridges are critical because their failure could lead to a catastrophic event and the alternative - shutting them down completely - will create significant traffic issues. The consistent failure of our traffic signaling system is endangering lives and impeding our ability to improve traffic flows and reduce congestion. Sidewalks not only reduce the demand for vehicle traffic (thereby reducing traffic accidents), their current state of disrepair creates considerable legal liability to the City. Up-to-date fleet and facilities directly associated with the delivery of public safety services (fire houses, police vehicles, forestry equipment, etc) are critical for advancing the public safety needs of the City. The poor condition of our major arterials and collector streets create hazardous conditions and increase the likelihood of accidents. The following table summarizes our recommended funding distribution:

State of the City's Infrastructure

Recommended Investment	Replace 8 Bridges	Replace Traffic Signaling System	Modernize Fleet and Public Safety Facilities	Upgrade Sidewalks	Resurface Streets
Approach	Replace 8 bridges immediately	Entire system overhaul including new signal management system	Fund Priority 1 and Priority 2 fleet needs (\$21M); Priority 1 Fire Stations (\$15M), all Police facilities needs (\$16M)	Create and seed sidewalk investment revolving fund; revenues derived from owner billing	Fund Priority 1 arterial and collector streets
Rationale	Alternative is to shut them down, creating significant traffic issues	Malfunctions increasingly common with risk to drivers and pedestrians	Police and Fire fleets constitute over half of the need; fire houses and police facilities are in poor condition	Degraded sidewalks create pedestrian hazards	Poor road conditions in higher speed corridors create risks for accidents and increase city liability
Benefits of Investment	Eliminates risk of catastrophic event	Upgraded system will improve traffic flows and increase street carrying capacity	Reduction in fleet maintenance expenses and improved service delivery	New sidewalks will encourage pedestrian activity, reducing traffic	Fewer accidents, less liability, improved traffic flows
Cost	\$72 million	\$60 million	\$52 million	\$36 million	\$30 million

These are our recommended priorities for General Fund support. The City will continue to seek alternative sources of funding – Federal, State and other sources – that can assist us in meeting the infrastructure needs of the City.

Eventually, the infrastructure crisis our nation faces will be addressed. We are confident that new, enlightened leadership in Washington will recognize that high-quality public infrastructure drives the growth and productivity of the nation's private economy. Since in a global economy access to high quality airports, roads, railways and ports is a critical driver of our competitiveness, our country's future economic prosperity is directly related to the level of investment we make in our public infrastructure.

Appendix A

SIDEWALK RAMPS COSTING

The cost estimates for sidewalk repair include the cost of replacing or installing corner ramps consistent with the standards established with the American with Disabilities Act (ADA). Costs have been calculated based on replacing ramps only when adjacent sidewalk repairs are made.

The cost to replace sidewalk ramps in conjunction with sidewalk repairs is \$20 million. This does not include installing ramps in areas where sidewalks are in good condition (but still need replacement to be ADA compliant), so is an under-estimate of the total ramp needs in the City.



Cost Estimate – Ramps replaced with repaired sidewalks

Total City Sidewalk	29.1 miles (2,085,600 linear ft)
Estimated Ramp Cost	\$1,200
Total Ramp Cost	\$2,502,720

Appendix B

BRIDGES WITH SUFFICIENCY RATINGS OF 50 OR LESS

BRIDGES WITH SUFFICIENCY RATINGS OF 50 OR BELOW	Sufficiency Rating	Year Constructed	Priority
Peachtree St. over CSX Rail line/Marta	2	1901	1
Pryor Street over CSX Railroad	10	1929	1
Bankhead Av. Over Southern & CSX R.R.	15	1912	1
Powers Ferry Road over Nancy Creek	16	1946	1
Mitchell Street over Southern Railroad	22	1924	1
M.L.K. Jr. Dr. over Parking Lot.	24	1924	1
Fairburn Road over CSX Railroad	25	1937	1
Edgewood Avenue over Southern Railroad	25	1906	1
Nelson St. over Southern R.R. & Park. Lot	31	1906	2
Park Drive over Southern Railroad	31	1916	2
Central Av. Over Ga. Railroad, Marta & L.W.	32	1926	2
Chester Bridge Rd. over CSX Railroad	40	1937	2
Piedmont Avenue over Southern Railroad	41	1936	2
Hollywood Road over Southern R.R. yard	42	1917	2
Mitchell Street over Abandoned Railroad	42	1911	2
West Lake Av. Over CSX & Marta Rail Line	43	1940	2
Courtland St. over Decatur St. & CSX R. R.	48	1906	2
Anderson Avenue over CSX & Marta Rail	50	1937	2

Appendix C

RECREATION CENTER LIFECYCLES

Name	Classification	SQ feet	App. Year of construction	Replacement Cost	Years from Life cycle
Bass	Comm Ctr.	6,290	1915	\$2,201,500	-53
English Park	Rec	4,697	1940	\$1,643,950	-28
John White	Rec	3,184	1940	\$1,114,400	-28
Perkerson Park	Rec	4,038	1940	\$1,413,300	-28
Zaban	Rec	4,844	1940	\$1,695,400	-28
South Bend	Rec	3,000	1947	\$1,050,000	-21
Peachtree Hills	Rec/Gym	7,356	1948	\$2,574,600	-20
William T. Knight	Rec	2,180	1949	\$763,000	-19
Brownwood	Rec	5,900	1953	\$2,065,000	-15
Lang-Carson	Rec	14,781	1960	\$5,173,350	-8
Arthur Langford	Rec	7,611	1964	\$2,663,850	-4
C.A. Scott	Rec	5,824	1965	\$2,038,400	-3
Anthony Flannigan	Rec	2,300	1965	\$805,000	-3
Adamsville (old)	Rec/Gym	10,336	1970	\$3,617,600	2
Pittman Park	Rec	21,642	1971	\$7,574,700	3
Loretta J. Klmpson	Rec	14,781	1972	\$5,173,350	4
Bedford Pine	Rec	15,577	1973	\$5,451,950	5
Chastain Memorial	Rec/Gym	14,870	1973	\$5,204,500	5
Drew Park	Rec	16,965	1973	\$5,937,750	5
Grant Park	Rec	18,747	1973	\$6,561,450	5
Coan Park	Rec	14,194	1975	\$4,967,900	7
Collier Park	Rec	4,971	1975	\$1,739,850	7
Thomasville Heights	Rec	19,940	1975	\$6,979,000	7
Adams Park	Rec/Gym	17,723	1976	\$6,203,050	8
Oakland City Park	Rec	5,386	1976	\$1,885,100	8
JFK	Rec	14,792	1978	\$5,177,200	10
Rick McDevitt	Youth	3,352	1978	\$1,173,200	10
A.D. Williams	Rec	5,360	1980	\$1,876,000	12
Anderson	Rec	15,338	1980	\$5,368,300	12
JD Sims	Rec	5,766	1984	\$2,018,100	16
Grove Park	Rec	25,264	1987	\$8,842,400	19
Selena S. Butler	Rec	4,275	1994	\$1,496,250	26
Southeast Atlanta	Rec	75,000	1995	\$26,250,000	27
Ben Hill	Rec	35,000	1997	\$12,250,000	29
Bessie Branham	Rec	20,447	1998	\$7,156,450	30
New Adamsville	Rec	110,000	2003	\$38,500,000	35

Appendix D

ACTIVE FIRE STATION LIFECYCLES (GENERAL FUND)

Address	Station No.	SQ feet	Year of Construction	Years from Life cycle
447 Flat Shoals Ave., SE	Station 13	1,950	1921	-36
1063 N. Highland Ave., NE	Station 19	5,424	1924	-33
590 Manford Rd., SW	Station 20	4,000	1926	-31
817 Hollywood Rd., NW	Station 22	2,653	1938	-19
2007 Oakview Rd., SE	Station 18	2,570	1940	-17
1545 Howell Mill Rd., NW	Station 23	5,265	1948	-9
2349 Benjamin E. Mays Dr., SW	Station 25	5,549	1948	-9
4260 Northside Dr., NW	Station 27	3,862	1953	-4
2040 Main St., NW	Station 28	4,280	1953	-4
10 Cleveland Ave., SW	Station 30	4,048	1956	-1
2406 Fairburn Rd., SW	Station 31	4,703	1957	0
447 Boulevard, SE	Station 10	6,817	1958	1
1288 DeKalb Ave., NE	Station 12	7,247	1958	1
2970 Howell Mill Rd., NW	Station 26	4,974	1958	1
2167 Monroe Dr., NE	Station 29	6,845	1958	1
71 Elliot St., SW	Station 1	16,000	1961	4
1048 Simpson Rd., NW	Station 16	7,744	1963	6
3501 Martin L. King Jr. Dr., NW	Station 9	8,500	1967	10
1711 Marietta Blvd., NW	Station 8	8,000	1969	12
2911 Donald L. Hollowell Pkwy., NW	Station 38	8,000	1972	15
1568 Jonesboro Rd., SE	Station 2	7,500	1977	20
4697 Wieuca Rd., NW*	Station 39	20,000	1979	22
3201 Roswell Rd., NE	Station 21	16,000	1984	27
170 10th St., NE	Station 15	9,900	1986	29
1489 Ralph D. Abernathy Blvd., SW	Station 17	6,100	1987	30
3671 Southside Industrial Pkwy., SE	Station 34	10,000	1988	31
2825 Campbellton Rd., SW	Station 5	12,000	1990	33
721 Phipps Blvd., NE	Station 3	9,162	1993	36
309 Edgewood Ave., SE	Station 4	8,000	2001	44
1203 Lee St., SW	Station 14	8,000	2001	44
1335 Kimberly Rd., SW	Station 36	N/A**	N/A	N/A

*Station 39 is operated by Fulton County but City of Atlanta owns the facility

**Station 36 is not housed in a city owned facility but currently operates from leased space

State of the City's Infrastructure

A Report by the Office of Program Management



For More Information Please Contact:

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Director of Performance Management

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December 16, 2008

We would like to thank Tamara Jones for her contribution to the analysis and substance of this report as well as the following individuals for their help towards compiling the data: David Marshall, Jan McIntyre, Jeffery Glazier, Jim Daws, Jimmy Hodges, John Yang, Larkin Haney, Larry Riddle, Lawrence Jeter, Lorn Whittaker, Michael Ayo, Nursef Kedir, Rita Braswell, Sandra Jennings, Santana Herrera, Sharyl Chatman, Sushma Dersch and Tony Distephano.

A RESOLUTION

BY: FINANCE/EXECUTIVE COMMITTEE

**A RESOLUTION BY THE COUNCIL OF THE CITY OF
ATLANTA, GEORGIA ADOPTING THE CITY OF
ATLANTA FIVE YEAR FINANCIAL PLAN; AND FOR
OTHER PURPOSES.**

Whereas, the Moody's and Standard and Poor's Investor Rating Services both downgraded the City of Atlanta's General Obligation Debt rating in 2009 based on the City's diminished financial position and declining revenues, and

Whereas, the Atlanta City Council Adopted Resolution 09-R-1213 authorizing the development and adoption of a 2009 through 2014 Financial Stabilization Plan; and

Whereas, the purpose of the Five Year Financial Stabilization Plan is to outline fiscal stabilization priorities, by preference; and

Whereas, an intent of Ordinance 09-R-1213 was to have the Financial Stabilization Plan submitted to Council for consideration by October 15, 2009; and

Whereas, The City Council desires to approve the 2009 – 2014 Five Year Financial Stabilization Plan, which is included as "Attachment A" as the guide by which the City shall move forward in stabilizing and improving the City's financial position.

**NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF ATLANTA
RESOLVES;**

SECTION 1: That the 2009 – 2014 Five Year Financial Stabilization Plan be adopted as the guide by which the City shall move forward in stabilizing and improving the City's financial position.

SECTION 2: That all resolutions or parts of resolutions in conflict herewith are hereby waived to the extent of the conflict.

ATTACHMENT A

City of Atlanta



Five Year Financial Plan

October 14, 2009



CITY OF ATLANTA

SHIRLEY FRANKLIN
MAYOR

55 TRINITY AVE. S.W.
ATLANTA, GEORGIA 30335-0300

TEL (404) 330-6100

October 12, 2009

It is my pleasure to transmit to you this Five Year Financial Plan for the City of Atlanta. The fundamentals of the City are strong. We are the second-fastest growing City in the country. Hartsfield Jackson Atlanta International Airport is the busiest in the world. With the Georgia Aquarium, Woodruff Arts Center and World of Coke – combined with the soon-to-be built Center for Civil and Human Rights and College Football Hall of Fame – Atlanta is developing a critical mass of attractive destinations that should elevate our position in the tourism and convention industry. The City has one of the strongest concentrations of higher education institutions in the country. Atlanta is home to a diversified set of Fortune 500 companies and we were recently ranked by Entrepreneur.com as a Top 10 city in the country in which to start a business. Crime is down to historic lows, and our neighborhoods are flourishing. Atlanta is a great place to live, work, and visit.

The objective of this plan is to provide the City Council and the next administration with an understanding of the City's medium-term financial condition and challenges. The bottom line is that the City can continue to provide its present level of service assuming that the economy improves in line with current forecasts. However, based on current projections and absent a significant new source of revenue, we will not be in a position to enhance service levels nor address several core priorities – such as replacing our fleet and making much-needed investments in our roads, bridges and sidewalks.

The City has made considerable progress in calibrating our expenses to the revenues we can reasonably expect to collect. Despite revenues that have declined in real terms over the past eight years, we have been able to absorb a 25% increase in our population and continue to provide core services. In other words, we are delivering services to an additional 110,000 residents (and hundreds of thousands of daytime visitors) with the same resources we had eight years ago. We have been able to meet this challenge through our efforts to re-organize and improve the efficiency of local government – our workforce has been reduced by 30% – but the City cannot save its way to prosperity. Ultimately, the City will need to find new revenues to support the investments it needs to make.

The Five Year Financial Plan explains and illuminates these challenges. It can serve as a blueprint for anyone interested in the future of the City and in its capacity to provide municipal services to its growing population. Atlanta is a great city, and the fact that people and businesses are flocking here is clear evidence of our strengths. The job of the next generation of political and business leadership in the City is to harness those strengths so that what we have collectively created – an ethical, efficient, and transparent local government – continues to move in the right direction

Sincerely

A handwritten signature in cursive script that reads "Shirley Franklin".
Shirley Franklin

Five Year Financial Plan – City Officials

Mayor Shirley Franklin

City Council President

Lisa M. Borders

Members of Council

District 1 Carla Smith

District 2 Kwanza Hall

District 3 Ivory Lee Young, Jr.

District 4 Cleta Winslow

District 5 Natalyn Mosby Archibong

District 6 Anne Fauver

District 7 Howard Shook

District 8 Clair Muller

District 9 Felicia Moore

District 10 C. T. Martin

District 11 Jim Maddox

District 12 Joyce M. Sheperd

Members of Council-At-Large

City Council-At-Large - Post 1 - Ceasar C. Mitchell

City Council-At-Large - Post 2 - Mary Norwood

City Council-At-Large - Post 3 - H. Lamar Willis

Chief Operating Officer – Gregory J. Giornelli

Chief Financial Officer - James W. Glass, CPA

Senior Policy Advisor - David Edwards

Five Year Financial Plan Team

Enterprise Assets Management Officer – Lisa Y. Gordon, CPA

Budget Chief - Roosevelt Council, Jr.

Revenue Chief – Gary Donaldson

Debt Chief – Carmen Pigler

Finance Consultant – Ian M. Cooper

Senior Budget Manager – Renee Matis

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Letter from the CFO



CITY OF ATLANTA

55 TRINITY AVE, S.W.
ATLANTA, GEORGIA 30335-0300

The Honorable Lisa Borders
Members of City Council
Atlanta City Council
55 Trinity Avenue, S.W.
Atlanta, Ga. 30303

Dear President Borders and Members of City Council:

Attached is the Five Year Financial Plan for the City of Atlanta. This fulfills the requirements set forth in City Ordinance 09-O-1406. More important, it lays out the City's financial trajectory and recommends key actions to improve its path and financial stability.

The bottom line is progress can and should occur on the financial stabilization priorities over the next five years. However, progress will not occur overnight and will take continued fiscal discipline. Improving the City's financial position is a long-term strategy requiring proactive decisions and actions over multiple years.

The good news is progress on key financial stabilization priorities is being made currently and is modeled into this plan. For example, the baseline financial plan shows how the balance can be grown to \$57 million by the close of fiscal year 2014. This is the City's "rainy day fund" used to help cover emergencies. Increasing its balance can help the City be ready for unforeseen needs. It also is a key measure that external bond rating agencies review and a factor in the City's credit worthiness. In this manner, the City's progress on

financial stability priorities can improve fiscal discipline while expanding City access to capital and reducing its financing costs.

The concerning news is that the baseline financial plan shows slow revenue growth and a continued increase in pension and healthcare costs. Despite Citywide cost reductions of 30% over the past two years, there continues to be a structural imbalance between the City's baseline revenues and costs. Initial projections show a deficit situation in each of the next four years. For initial planning purposes, these deficits are eliminated annually by using a portion of funds from the annual restricted reserve (5% of revenues). For example, in fiscal year 2011, initial projections indicate a deficit of \$15.9 million, which is funded from the 2011 restricted reserve of \$27.3 million. A critical note is this does not include any new City services or costs, such as new investments in public safety. It only provides the current services being delivered as of July 1, 2009.

Current and future leaders of the City should pay attention to these projections. The forecasts mean that the opportunity for increasing City services/costs over the next five years is severely limited without a corresponding new revenue source. Can costs be cut further within the City? Like any organization, there is always room for further improvement. However, we are likely reaching the threshold where further significant cost cutting severely impacts service delivery. In fact, peer City benchmarking conducted by Bain & Company shows that we have moved from the last quartile of efficiency and have become a leader in efficiency over the past eight years.

To stabilize its finances, the City should continue to keep its expenses tightly managed while moving rapidly on new revenue opportunities. These include renegotiating the local option sales tax. Facts show that Atlanta is not getting its fair share of sales tax based on the City's significant retail base and population growth in the last 10 years. Conservatively, a change in the sales tax allocation alone can bring \$18-\$20 million a year to Atlanta. This change will require renegotiating the City's percentage share on a more equitable basis with Fulton County and the County cities to reflect the City's strong retail presence.

The attached financial plan also includes a number of planning scenarios. These items are above and beyond the current service projections included in the baseline plan. These scenarios represent incremental cost or revenue estimates. They serve as "what-if" planning scenarios that cover key requirements that are in addition to the FY10 budget and current services.

Though these costs are not directly included in the baseline plan, some of these items are essential. An example is replacement of the City's vehicle fleet and core infrastructure, including streets, bridges, sidewalks, and traffic signals. The City has not had funds to do significant replacement in recent years. The City has only had funds for reactive maintenance. Without action over time, repair will no longer be possible, which will impair City services and the use of these important assets.

The residents of Atlanta alone should not have to pay for the City's entire infrastructure needs. U.S. Census studies have shown that Atlanta's population surges 62% in the daytime due to commuters. The City residents must fund core services to a commuter population. These individuals benefit from Atlanta's infrastructure without fully paying for it. This is a critical element to understand as it adds to the City's structural financial challenges. Some form of tax restructuring or increased state or federal assistance is necessary to deal with this imbalance.

Financial stabilization will require relentless fiscal discipline. A well-aligned portfolio of revenue growth and expense reduction initiatives should be pursued to make the City structurally sound. My summary recommendations are to:

1. Continue to thoroughly plan for City costs and revenues to avoid surprises. Conduct cost benefit analysis on new initiatives or projects prior to making commitments.
2. Continue to question every dollar of expense as to its benefit.
3. Accumulate restricted reserves to build a strong general fund and correct other fund deficit positions.
4. Capture property tax growth by not rolling back the millage rate. Take action on new revenue opportunities. The City must become a healthy growing entity.
5. Pursue revenue expansion at the state and federal level. Currently, the City's General Fund receives less than 1% in state support. However, the average support to cities across all U.S. States is 15% (2006 U.S. Census Bureau Annual Survey of Governments, Bain & Company). In addition, many revenue rates are governed by the State of Georgia, which effectively limits the City's ability to increase revenues. Recent legislation has further constrained the City, i.e., SB 233 freeze on tax reassessments until FY 2013. In order to provide key services, revenues must be structured to keep pace with population growth and inflation.
6. Invest in the City's employees. To recruit and retain talented employees, the City must have competitive pay, professional development, and a structure that rewards results.

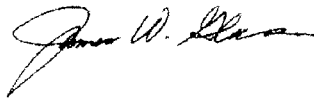
7. Continue to review and improve the City's focus. Significant time and resources are spent on paper-intensive, transaction processing. More time and effort should be committed to automation, higher value work, and improving service delivery.

As is common with long-term planning efforts in public and private industry, the resulting forecast should be viewed as directional in nature. We received input from external and City subject matter experts to develop the financial projections included. For example, we worked with the lead economist from the University of Georgia to develop realistic revenue assumptions and forecasts.

This plan is a snapshot in time based on the information available during the development of the report. Please keep in mind it is a living document subject to change.

I strongly suggest that the City continue to have a comprehensive multi-year, financial planning process each year. It promotes a focus on the long-term health of the City, allowing the City to better predict financial challenges and persevere through the unexpected.

Sincerely,



James W. Glass
Chief Financial Officer

Executive Summary

This Five Year Plan forecasts revenues through FY14 based on conservative economic assumptions (a slow recovery from the current recession with only historical-based growth thereafter) and projects expenses over the same period based on the level of City services in place today.

On the positive side, the most important takeaway from this analysis is that the current level of City operations is sustainable for the next five years. Indeed, a number of significant positive outcomes are projected:

- The City produces annual surpluses each of the five years, ranging from a high of \$27 million in FY10 to a low of \$3 million in FY14.
- The baseline analysis includes a small number of expanded activities, including the maintenance of new BeltLine parks that will be brought on line in the next five years; scheduled upgrades for the ERP system; and public safety radio system maintenance costs.
- The General Fund's fund balance increases to \$57 million at the end of FY14.
- For the first time in recent years, the City will build both a "rainy day" fund (also called a "catastrophic reserve" in the enabling legislation) and a capital reserve fund.
 - The "rainy day" fund contributions for FY10 – FY14 will total \$51 million.
 - The capital reserve fund contributions for FY10 – FY14 will total \$17 million.
- The amounts currently payable to the Department of Watershed Management through the Memoranda of Understanding will be reduced by half and will be on schedule for payment in full in accordance with the terms of the borrowing agreements.
- The next five years will present an opportunity to generate an additional \$30 million per year towards the City's budget through a combination of cost cutting and added revenue.
 - The sale of the City jail would generate \$10 million per year in savings.
 - Based on the existing population-based revenue sharing methodology, the City is estimated to add \$20 million per year in sales tax collections once Fulton County's sales tax agreement is renegotiated in FY12.

In summary, the five year plan analysis shows that the City can continue to fund current services, substantially improve its balance sheet and build long-term reserves. In addition, the report identifies \$30 million annually in "new money" that through proactive cost-cutting and increased sales tax revenue.

At the same time, the Plan highlights a number of key financial and operational challenges that the City will have to address:

- Absent a new revenue sharing agreement that increases the City's proportion of county-based sales tax collections, overall revenues will grow marginally at best (only 1.4% per year).
- The City's annual budgeted reserves are steadily depleted through increasing expense costs each year. Although FY15 is not projected, it is likely that such reserves would not be able to cover baseline expenses beginning in FY15.
- The baseline projections do not allow for any salary increases or performance-based pay adjustments during the five years. Allowing for a 2.5% COLA each of the next five years would add \$29 million to the FY14 budget.
- The baseline projections do not provide for new investments in vehicles and equipment. Since more than 50% of the City's existing rolling stock is past its effective life cycle, new investments must be made during the next five years. Average annual investments of \$22 million per year are needed to update the City's fleet.
- The baseline projections do not provide for a reduction in the amortization period for the City's pension funds. If the City were to reduce its amortization period from 30 years to 25 years, annual pension costs would increase \$10 million by FY14 to reduce its unfunded liability.
- Total costs to reflect annual COLA's, recommended fleet investments and lowering the pension fund amortization period would add \$63 million per year by FY14.
- Outside of the sale of the City jail, there are very limited cost saving opportunities as the City already has reduced its work force by 30% since 2001.
- The baseline projections do not add new public safety personnel.
- Atlanta, like every other major city in America, faces a major issue with deteriorating public infrastructure (roads, bridges, traffic lights and the like). The City has an estimated \$3 billion in public infrastructure needs over the next 25 years. This will be one of the long-term significant issues facing Atlanta and the country over the coming decades. The five year plan identifies alternative ways to finance the infrastructure needs through bonds. However to pay the debt the City may need a combination of a referendum, state and federal funding.

The five year planning process was initiated in 2009 to improve understanding of the City's projected financial position over multiple years and to identify key actions to improve its financial performance. This promotes a focus on the long-term health of the City, allowing it to better predict financial challenges and address them proactively.

Five Year Plan - Purpose and Organization

Purpose

The City's introduction of a five year planning process allows the city to identify future revenue and expense trends and proactively identify ways to improve financial viability. A five year plan is a critical forecasting tool for the City. The refinement of assumptions, historical trends and policy decisions will have a direct impact on the City's ability to address volatile economic conditions.

Enabling Legislation

Ordinance 09-0-1406 was adopted on September 21, 2009, and it codifies the requirement to complete a five year stabilization plan that is updated annually. The Ordinance directs the City to consider and present specific financial issues that are critical to the City's financial future by October 15 of each year. It further requires that in subsequent years, the City Council will formally adopt a plan by the 3rd Monday in January. (See Appendix 1 for Legislation)

In addition to a projection of baseline revenues and expenses, 09-0-1406 specifically states that the 2009 plan shall quantify and analyze the following objectives:

1. Eliminating any deficits in funds supported by the General Fund and pay off the Memorandums of Understanding of borrowing from the cash pool.
2. Identify funds to pay for additional Police Officers that are grant funded through FY13.
3. Examine options to reduce the amortization period of Unfunded Actuarial Accrued Liability for all three pension plans.
4. Identification of a funding source to replace the City's fleet.
5. Reinstate cost of living increases for employee retention.
6. Identify a funding source to repay any State or Federal grant obligations.
7. Establish a General Fund fund balance of \$100 Million (rainy day fund).
8. Establish bond issues to fund long term infrastructure needs of the City.

Five Year Plan - Revenues

In this section, a projection of overall revenues for each of the next five fiscal years, as well as a detailed projection of property tax and sales tax collections is discussed. The City collaborated with Dr. Jeffrey M. Humphreys, Director, Selig Center for Economic Growth, Terry College of Business, University of Georgia to develop the economic outlook.

Economic Trends & Outlook

The City of Atlanta has been significantly affected by the recession and it has adversely impacted economically sensitive revenues. Appendix 2 provides a detailed analysis of the Selig Center economic assumptions that have been incorporated in the City's revenue forecast. Key highlights from Dr. Humphreys' economic analysis include the following:

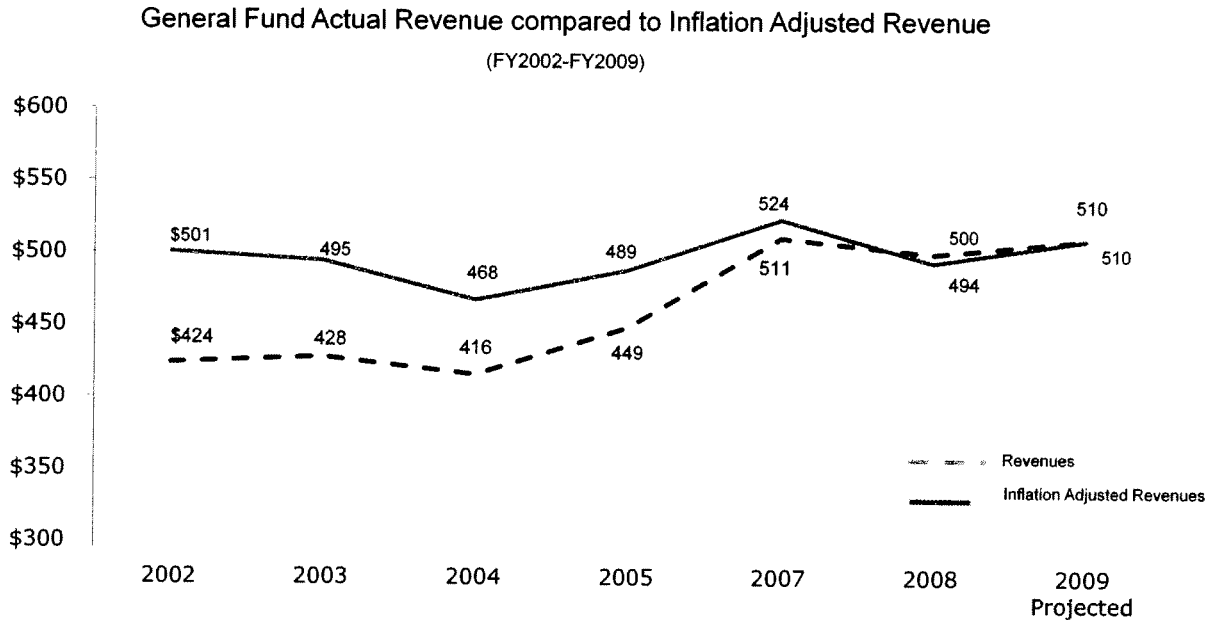
- "Deep recessions often promote V-shaped recoveries, but this time it will be different because tight credit and unprecedented wealth destruction will restrain growth of consumer spending and will delay hiring thereby slowing the recovery and limiting the ability of local governments to finance services."
- "Consumer spending will grow very slowly (potentially for several years), limiting the push to sales and use tax collections."
- "With the exception of the inventory cycle, B-to-B (business to business) activity will lag the recovery in consumer spending by one or two quarters, which could be a problem for the City of Atlanta to the extent that it is more dependent on B-to-B spending than the state as a whole."
- "Home price declines will persist through early FY10, eroding the residential property tax base as well as creating difficulties in collections. "
- "Beyond housing, a deepening recession in nonresidential construction will limit the growth of property tax digests in this fiscal year and the next fiscal year. "
- "Although higher inflation is a definite long-term possibility, the primary near-term outlook calls for very modest inflation, which will restrain revenue collections in both FY10 and FY11. "

What does this mean? The recovery will be slow and the rebound of revenues will be incremental. The current revenue trends have been flat or declining due to the recession.

This economic forecast has been used as the basis for the City of Atlanta revenue growth assumptions presented in this report. However, the historical trends indicate that the economic downturn is not the only reason for concern.

Historical Revenue Trend

The City's population has grown by 25% this decade. However, the City has had relatively flat revenues during this time except for the period of 2005-2007 when one-time revenues such as building construction increased. The primary reason for this is that underlying tax and fees from rates have not kept appropriate pace with population growth. The chart below graphically depicts the historical revenue trends from both an actual and inflation-adjusted perspective.



Note: 2006 was a half year. 2006 numbers not included in order to highlight trends.

Source: United States Department of Labor - Bureau of Labor Statistics, Consumer Price Index (CPI) Inflation Calculator as of 4/24/2009

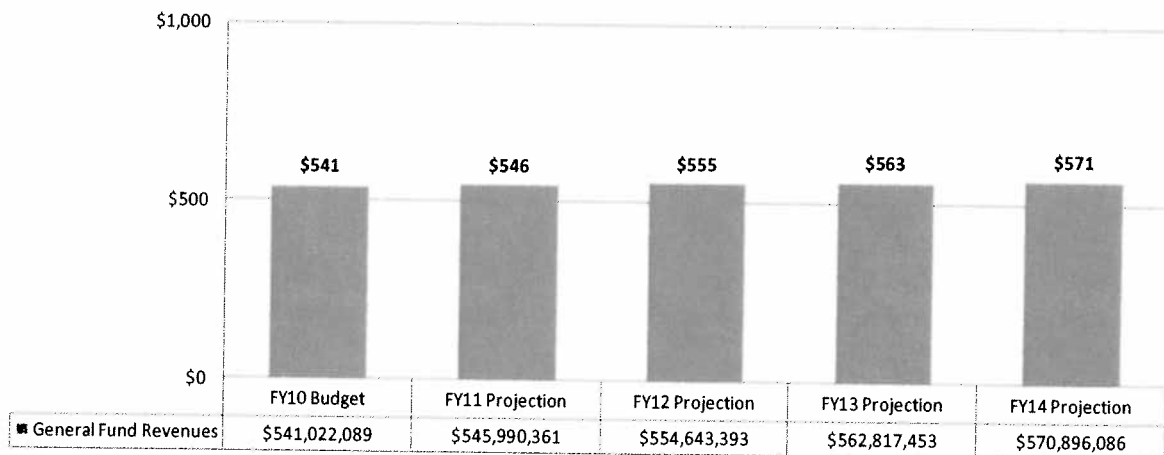
As the dotted line on the chart illustrates, even in times of economic prosperity the City's revenues do not increase significantly. When the impact of inflation is taken into account, the slightly increasing trend of revenues becomes almost completely flat. For example, revenues of \$424 million in 2002 are equivalent to \$501 million when adjusted for inflation to 2009 dollars. A full seven years later, the City expects to collect \$510 million in revenues in FY09 (a negligible growth rate of just 1.8%).

Limited growth of revenues in real dollars is the most significant financial constraint on the City going forward. Any healthy organization must increase revenues as the demand for its services grows. The City must find a way to increase its ongoing revenue streams.

Revenue Projections FY10 – FY14

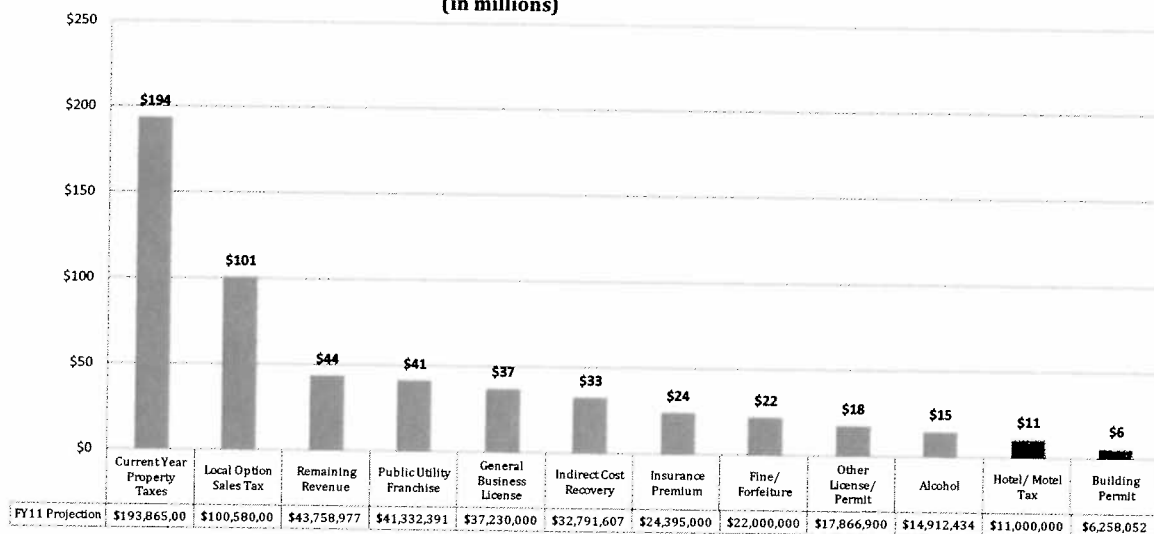
The City's projection of revenues as presented below reflects overall five year growth of 5.5%. This translates into an annual growth rate of 1.4%. Notably, revenues are projected to increase only \$5 million from FY10 to FY11, a reflection of the continued recession. As we recover from the recession (FY12 – FY14), revenues grow at a slightly higher rate (2.8%). The major revenue sources will be presented below with a brief description of the item and the assumption for the planning years.

General Fund Revenue FY10 - FY14 Projections
(in millions)



The specific revenue sources are detailed in the chart below. It is noteworthy that property tax and sales tax collections generate over 50% of the City's revenue.

General Fund Revenue FY11 Projection
(in millions)



Property Tax

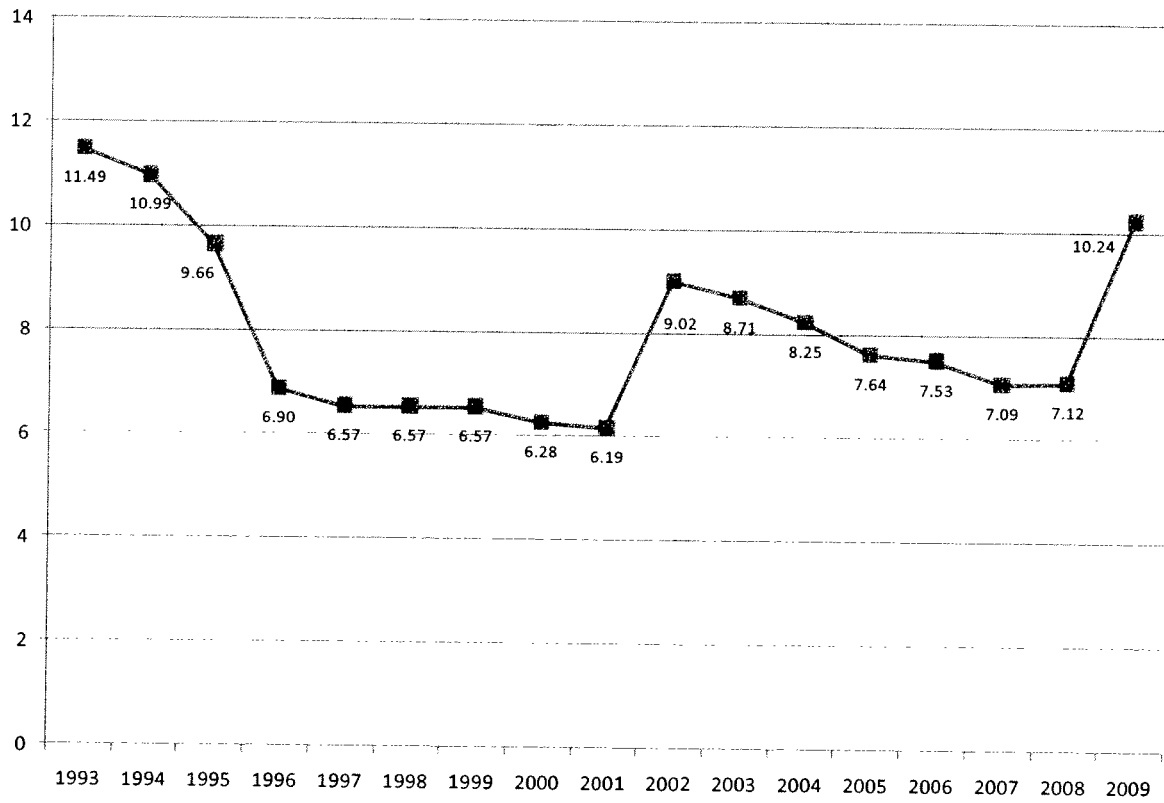
Property tax is normally considered one of the most stable local revenue sources for state and local governments. It funds essential public service delivery requirements. However, since the current U.S. and global recession was precipitated by the securitization of residential sub-prime loans and exacerbated by a significant increase in housing foreclosures and decreased property values, this has resulted in a weak outlook for the property tax base.

Current year property tax is levied on real estate and personal property within the corporate limits of the City. Property tax revenues are derived from the millage rate and the tax digest. Property tax revenues are used to support three governmental funds for the City 1) General Fund operations and maintenance, 2) bonded indebtedness, and 3) park improvements.

Historical Trend-Millage Rate

As indicated in the chart that follows, since 1993 the City has rolled back its millage rate due to property tax reassessments and other considerations with the exception of two years. The tax policy of rolling back the millage rate for reassessment growth has resulted in a significant loss of property tax revenues. Between 2002 and 2008, the City has lost a cumulative \$38 million in foregone property tax revenue due to rolling back the millage rate. Tax rollbacks do not allow the City to capture growth occurring in the tax base annually. The result is that over the past seven years, the City service delivery requirements outpaced the available tax revenue sources. In FY10, a 3.12 millage rate increase was approved to address the foregone tax revenue loss attributed to a policy of rolling back taxes.

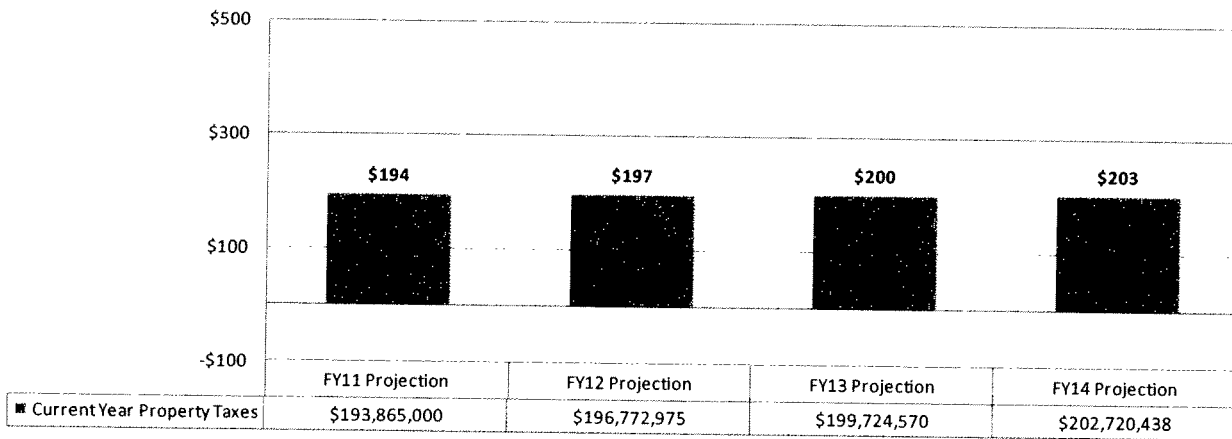
City General Fund Millage Rate History



Assumptions

The five year projection for property tax shows a total increase of \$9 million from FY11 through FY14, which represents a total growth of just 4.6%. This assumes a 1.5% annual growth in new construction. Senate Bill (SB) 33 that passed in the 2009 General Assembly session provides for a moratorium on increases in the assessed values of property effective through January 2011. This effectively freezes the City's reassessment until FY13. SB 55 that also passed in 2009 requires county tax assessors to consider foreclosure sales, bank sales and distressed sales in considering the fair market value of real property. This State legislation coupled with the current economic forecast for the nonresidential real estate market will continue to curtail property tax revenue growth.

Property Tax FY11 - FY14 Projections
(in millions)



Local Option Sales Tax (LOST)

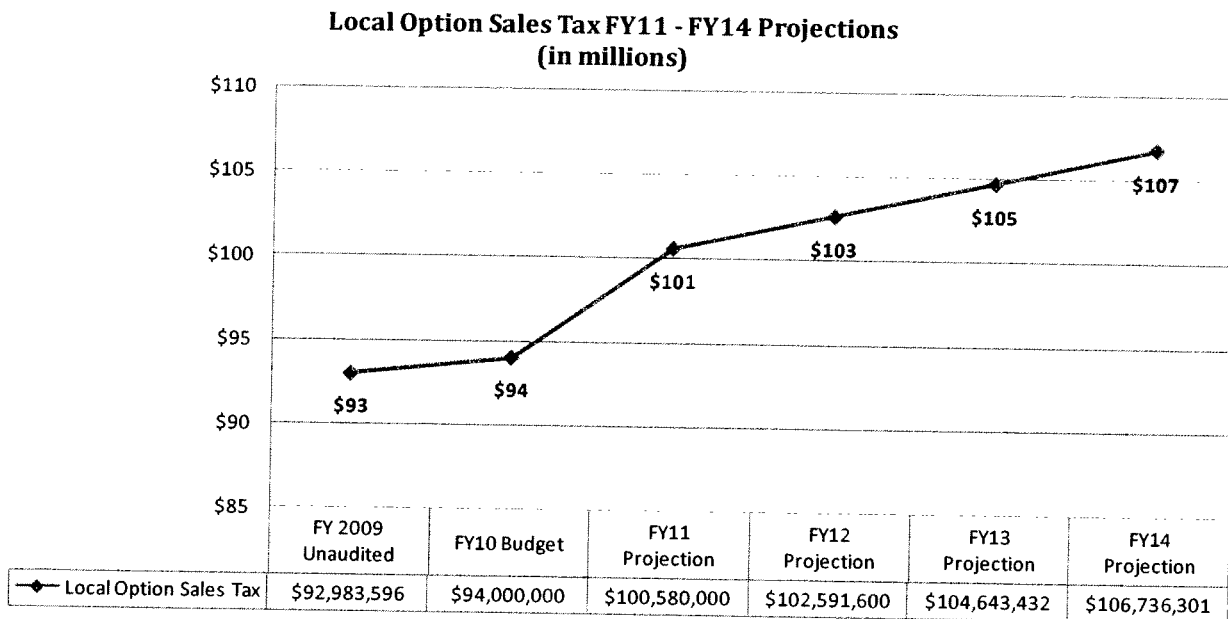
Sales tax is one of the most economically sensitive revenue sources with a close correlation to employment and use of disposable income. Only a portion of the 1% local option sales and use tax levied on the sales of goods and services within Fulton County, only a portion of 1% has an impact on the City's General Fund (see chart below). The 1% local option sales tax is shared between the county and its municipalities on a pre-defined formula. The City's share under the current formula (based on the 2000 Census population) is 42.87%. The City's share of the 1% tax is up for recalculation in 2012 following the 2010 Census. The opportunity to collect a higher percentage of the county-imposed sales tax will be discussed later.

The Georgia Department of Revenue remits sales tax receipts to the City on a monthly basis with a two-month lag from the period of economic activity. The components of the City sales tax are indicated below:

Sales Tax	Percent
State	4%
Local Option Sales Tax	1% (City General Fund Receives 42.87% of Total to Fulton County)
School Special Sales Tax	1%
Water Special Sales Tax	1%
MARTA	1%
Total Sales Tax	8%

The local option sales tax of \$94 million (FY10 forecast) is the second largest source of General Fund income historically accounting for 20% of total revenue.

The five year forecast presents a trend for sales tax. The line graph reflects an increasing trend consistent with historical collection growth rates. This resumption in sales tax collections reflects the economic recovery and resultant consumer spending. The forecast does not factor any change in the City's current percentage allocation.



Assumptions

The projection of sales tax collections detailed above shows a rebound in FY11 due to the beginning of the economic recovery and an increase in consumer spending. The assumption is a 7% growth (Selig Center Economic Report) in FY11, with the growth tapering off to 2% annually from FY12 through FY14.

Hotel/Motel Tax

The hotel/motel tax is levied and assessed at the rate of 7% on the rent for occupancy of a guestroom in a hotel in the City. The tax is shared between the City, Atlanta Conventions Visitors Bureau, Georgia World Congress, and the Georgia Dome. The City's share of the hotel/motel tax is 28.56%, with the remaining 71.44% distributed by the City to the aforementioned entities. This tax is collected on the 20th day of every month by the City. In FY11, this amount is projected to be \$11 million.



Assumptions

Hotel/motel revenue is expected to grow at 1.5% annually based on an increase in demand as the recovery begins to impact occupancy levels and business travel.

Public Utility Franchise Fee

This category includes franchisee fee assessments for electric, gas, cable and telecommunication companies. Georgia Power remits an annual payment in January of each year and their fee is based on 5% of gross receipts. Georgia Power accounts for two-thirds of all franchise payments. In FY11, this amount is projected to be \$41.3 million. The telecommunication companies remit payments on a quarterly basis at the rate of 3% of gross receipts. In December 2009, the City projects only to receive local recurring gross receipts from telecommunication companies resulting from a change in state law.

Assumptions

Assumes an annual growth of 1.5% as forecasted.



Indirect Costs

The City allocates a portion of general services costs such as purchasing, accounting, budgeting, personnel administration, and certain other costs based on allocation methods determined by an independent cost allocation study. In FY11, this amount is projected to be \$33 million.

Assumptions

The forecast is flat as this source of income is primarily internal in nature.

General Business Tax

The general business tax is levied on all entities conducting business in the City. The business tax is computed on two separate criteria 1) Estimated Gross Revenue and 2) Number of Employees. The estimated gross revenue amount filed in the prior year is adjusted by the Actual Gross amount when filing for the next year's business tax. There are seven tax classes delineated by industry type. The business tax also referred to as the occupational tax is closely tied to corporate sales and employment levels. As a result, growth is expected to be stagnant due to the U.S. recession and resultant reduction in corporate gross receipts and increased bankruptcies. In FY11, this amount is projected to be \$37 million.



Assumptions

The forecast is 1.6% on average annually that reflects a slight increase in gross receipts and the employment base.

Insurance Premium Tax

The insurance premium tax is levied to every insurance company, domestic, or foreign operating within the State of Georgia. Each insurance company is assessed a tax at the rate of 2.25% on the gross direct premiums. The premium tax is remitted to the Georgia Department of Insurance. The City's share is based on the population of the City relative to all incorporated cities and the State population. The City receives an annual payment each October that represents the previous calendar year's premium collections activity. In FY11, this amount is projected to be \$24 million.

Assumptions

The forecast is 2.5% on average and is based on Atlanta population trends. Generally, the insurance premium tax is less susceptible to shifts in the economy than other corporate income derived taxes.



Building Permits

Building permit fees are one of the most economically sensitive revenue sources closely tied to the real estate and construction sectors. Building permits are currently assessed at the rate of \$5.00 per \$1,000 of total construction value with a minimum fee of \$50. However, no fee is required for repair work less than \$2,500. Pursuant to City Ordinance, a building permit is required to construct, erect, demolish, alter or repair any building, structure, equipment, appliance or system. Building permit revenue has declined significantly through the current recession. In FY11, this amount is projected to be \$6 million.

Assumptions

The forecast assumes a rebound in this revenue source with a forecasted 6.5% increase in FY11. This revenue type is strongly correlated to both the residential and commercial construction sectors that are experts expect to continue to recover.



Alcohol Taxes

Alcohol taxes are levied on wholesale distributors at the rate of .22 cents per liter. A 3% tax-by-the-drink is assessed on patrons of eating and drinking alcohol establishments within the City limits. The alcohol taxes category has remained relatively stable through the current recession. In FY11, this amount is projected to be \$15 million.

Assumptions

The forecast is flat as this revenue category has exhibited resilience through the current recession and the five year forecast reflects this trend.

Fines/Forfeitures

Fines and forfeitures are comprised primarily of parking and traffic fines and forfeitures. Fines and forfeitures are administered through the City Municipal Court. In FY11, this amount is projected to be \$22 million.

Assumptions

The FY10 budget included an increase in this revenue category related to Atlanta Police Department citations.



Remaining Revenues

The remaining revenue categories category includes all other sources, such as prior year taxes, motor vehicle taxes, public utilities taxes, other charges for services, and operating transfers. In FY11, this amount is projected to be \$44 million.

Overall Five Year Forecast

As a baseline revenue forecast, the assumptions are conservative and realistic based on currently available information. The five year revenue forecast shows some increases based on economic analysis and historic trends. This forecast could change radically if there is further instability in the U. S. and International markets.

Five Year Plan – Expenses

Expense Trends & Outlook

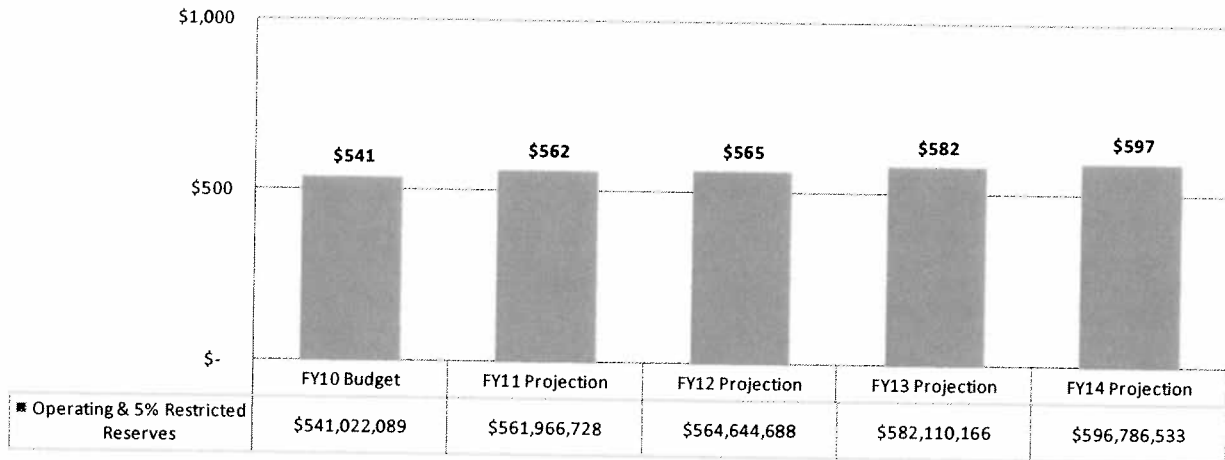
From FY02 – FY07, the City has improved efficiency, made investments in public safety, and has added programs. However, as the city began to experience the recession in 2008, many services had to be reduced, reorganized and eliminated. The FY10 budget is \$541 million and it reflects annualized reductions in staffing and service levels.

As mandated in 09-O-1406, in the five year plan FY10 spending becomes the “current services budget”, which then serves as the “baseline” for the subsequent years. Thus, spending projections for FY11 through FY14 are simply a continuation of the current FY10 budget (meaning all years have the same number of employees, the same salary levels, the same level of services, and the like) with just a few specific exceptions. The additions to the baseline are as follows:

- Inflation of 3% increases operating expenses beginning in FY12.
- FY13 – FY14, includes 50 additional police officers that are currently funded under the federal COPS grant.
- FY11 – FY14, includes 23 additional police officers that are currently funded under the federal JAG grant.
- Fleet Repair and maintenance increases at 19% each year due to an aging fleet . No replacement is provided in the baseline, it is presented in the planning scenarios.
- FY13 and FY14 funds upgrades to the City’s ERP system.
- FY11 – FY14 funds operating and maintenance for BeltLine parks.
- FY11 – FY14 funds maintenance for the new public safety radio system.

The chart on the next page shows that overall expenses over the five year period increases from \$541 million to \$597 million, representing a total a growth rate of 10.4%. The average annual growth rate is 2.6%.

**General Fund Baseline Expenses FY10 - FY14 Projections
(in millions)**



This projection does not include items that will also need funding such as infrastructure, fleet, information technology investment and other critical line items. In addition, there are no provisions for new staff to increase or enhancements to high priority areas such as public safety. These items are not forecasted in the baseline expense projections but many of the future needs have been identified. These items will require decisions in the near term and are presented in the planning scenarios that identify issues with significant fiscal impact.

A further itemization of the expenses in the chart on the next page, shows that 75% of the costs are attributable to Public Safety and Non-Departmental costs that include debt service and other required obligations that must be funded irrespective of the number of staff employed. All other activities of the City government such as public works, parks, code enforcement, planning, technology, and the support departments are funded with the remaining 25%.

Projections for Major Expenses & Assumptions for FY11

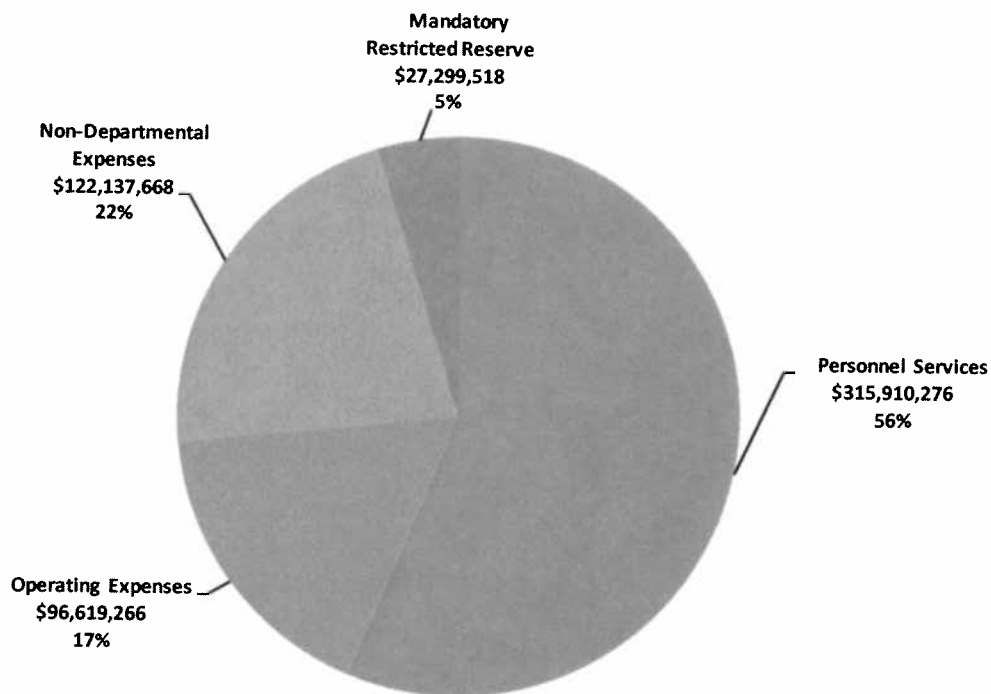
Public Safety Departments	\$269,057,232	48%
Non-Departmental Budget	\$149,749,857	27%
All Other Departments	\$143,472,309	25%
FY 2011 Projected Expenses	\$ 562,279,398	

NOTES:

Public Safety Departments (*Corrections, Fire, Police, Courts, Public Defender and Solicitor*)

To further understand the City's expense trends, the following pie chart shows the distribution of expenses among the major categories that include Personnel Services, Operating Expenses, Non-Departmental and the City's 5% Mandatory Restricted Reserve.

General Fund Baseline Expense FY11 Projection



Personnel Services

In FY11, the City's expenses comprise 56% personnel expenses that include salary and benefits. The cost drivers in this forecast are the number of personnel, pension, and health benefits. Since 2001, the city has reduced its workforce by 30%. However, the benefit obligations have continued to rise. It is important to note that public safety represents 72% of the personnel costs.

Pension

The five year plan forecasts the annual increase in pension expense based on the actuarial tables under the current amortization. It is forecasted at \$69 million in FY10 and increases to \$85 million by fiscal year FY14 for the General Fund. The City re-amortized its pension plans in FY10 to utilize a rolling 30-year period that reduced this obligation by \$25 million.

Health Insurance

The City's health insurance is directly impacted by the national economy and regional cost for benefits. The five year forecast anticipates a 10% increase in cost that is compounded annually.

Forty-four percent of the personnel costs are attributed to benefits. As employees retire, these expenses will increase. New employees have a higher level of mobility, however, the state mandated pensions will continue to have a significant impact on costs especially for public safety departments where there is a higher risk in the execution of their duties.

Non-Personnel Baseline Expenses

Several non-personnel baseline expenses increase annually. These items will be required to operate city government and include fleet services fuel, repair & maintenance, infrastructure repair and maintenance, and gas, water and electric utilities. Historically, these costs will increase based on the age of the City's fleet and infrastructure. There are significant operating cost increases as equipment and infrastructure age and are not replaced.

Utilities

The City has water, natural gas, and electricity that are required to operate city buildings, structures, and streetlights annually. In addition, a significant amount of fuel is needed to operate its fleet of vehicles, equipment and heavy machinery.

Electricity remains one of the City's largest costs. The City has implemented a series of green initiatives to offset utilization of electricity and the City's carbon imprint. These actions have mitigated some of the increase cost in rates and utilization. The City also reviewed all of its rates in conjunction with utilization to optimize efficiency and costs. The City costs have increased with the addition of three new buildings (E-911 and Data Center,

Public Safety Headquarters and the Public Safety Annex). The historical trends and five year forecast assume that utility costs will have a net increase on average of 8% each year.

Fleet Services (Fuel and Repair & Maintenance)

The City projects that fuel costs will increase by 9% each year. Fleet repair and maintenance is projected to increase by 15% each year assuming no vehicle replacement. The repair and maintenance costs will decline if vehicles are replaced.

Non-Departmental Expenses Included In the Baseline

The City has Non-Departmental expenses that fund activities that are not attributable to a specific department. The FY10 budget and five year forecast for Non-Departmental expenses includes the payments for debt service, payments for health benefits such as worker's compensation and retiree health benefits. In addition, it reflects fees, charges, inter-local agreement payments, and city memberships for participation in local, regional, state and national organizations. Non-Departmental expenses also include the City's mandatory budgeted reserves, more fully explained below.

5% Mandatory Reserve

The City is required by State law and city code to budget a 5% restricted reserve each year for emergencies. To utilize this fund, the City Council must take legislative action to re-appropriate the funds.

Under city legislation, at the end of each year any unspent reserves are then transferred to a capital reserve account (25%) and a "rainy day" reserve account (75%). The latter is officially called the "catastrophic reserve" in the legislative code. From an accounting standpoint, the full amount of the unspent reserves shows up as an increase in the fund balance on the City's balance sheet. Ideally, the City would leave untouched its budgeted 5% reserve and also fund a contingency reserve that covers unforeseen expenses on an annual basis. The full amount of the reserves remaining at the end of each fiscal year would bolster fund balances, including its capital reserve account and "rainy day" reserve account.

The table below shows a summary of the City's Non-Departmental account and the categories of expenses.

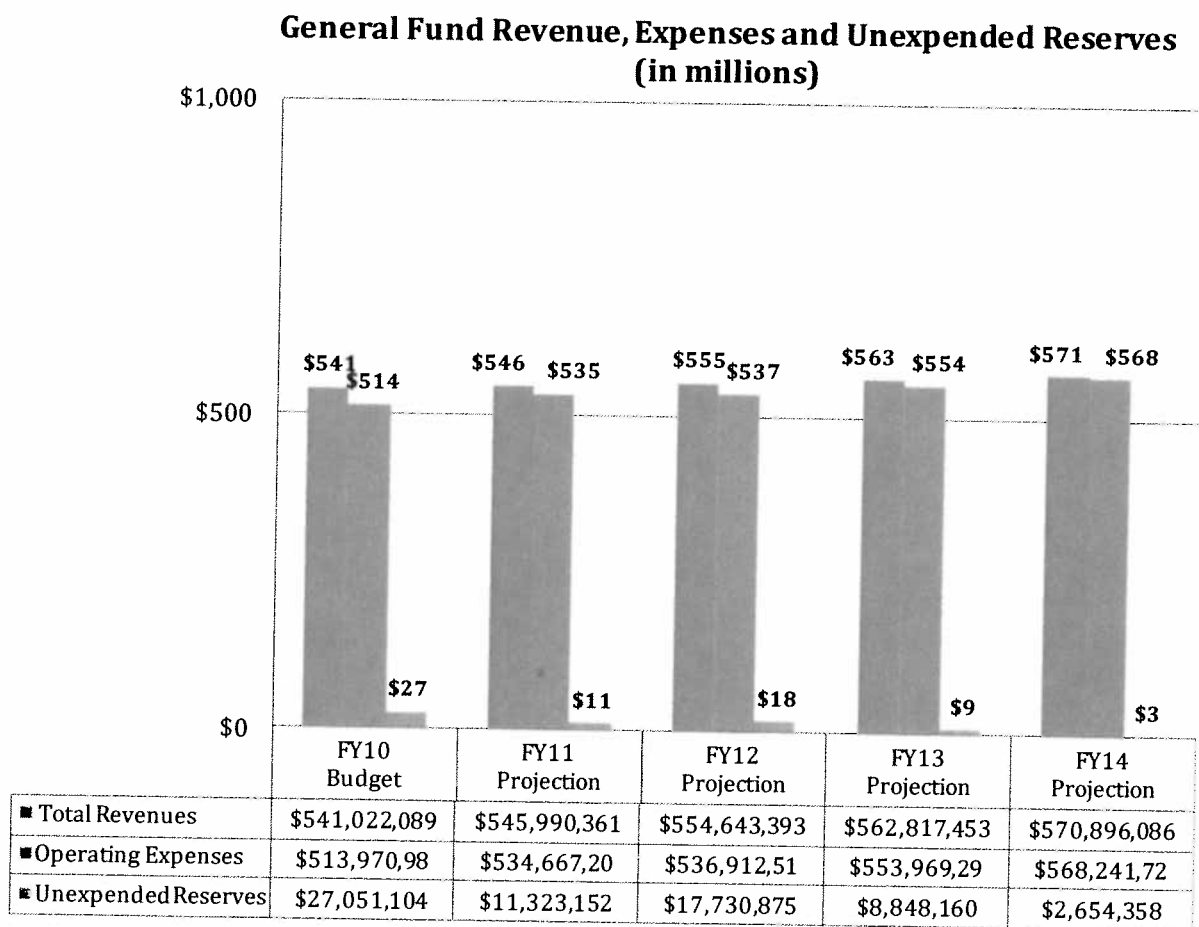
NON-DEPARTMENTAL	
Worker's Comp, Insurance Expense & Keep Atlanta Beautiful, Unemployment, Records	28,772,157
Management & Audit Fees, Tax Anticipation Note & Other Non-Departmental	
Annual Group Health Insurance Retiree (OPEB)	16,539,290
MOUs - Watershed (Principal and Int.)	18,035,591
Watershed - Water Bill	5,475,785
Bank Fees, Service Grants, Emergency Management Agency, Payments to Other Government	4,397,864
Agencies, Bad Debt Expenses	
Debt Service Payments:	
Public Safety Debt Service Payment	3,894,964
Debt Service Payments:	
URFA, Underground, Zoo Atlanta, Municipal Court, GMA Lease Pool & All Other Debt	40,909,825
Election Expense, Transfer to E-911 & Employee Assistance	4,112,192
Non-Departmental (without Reserve)	122,137,668
RESTRICTED RESERVE	27,612,189

Five Year Plan – Analysis

Financial Position

One of the most important takeaways of the five year plan is that in each year projected revenues are greater than expenses, producing an unexpended reserve annually. The unexpended reserve starts high, \$27 million in FY10, and decreases to \$3 million in FY14. The unexpended reserve accumulates to \$57 million over the five year period.

The chart below shows projected revenues, expenses, and unexpended reserves through FY14.



The five year forecast shows a number of strengths:

- The City's current level of operations is sustainable over the next five years, even without new revenue sources assuming economic recovery.
- The City's fund balance, a basic barometer of financial health, increases from \$6 million to \$57 million, an increase of \$51 million, by FY14.
- The City's capital finance fund deficit will decrease by \$17 million.
- The City pays down nearly 50% of its interfund borrowings from the Department of Watershed Management, reducing the balance to \$74 million.
- The City is able to fund 50 additional police officers it has received through the federal COPS stimulus program and the 23 police officers funded through the JAG grant.
- The City is able to make essential upgrades of its ERP system.
- The City is able to maintain the new BeltLine parks.

A detailed look at the five year picture, with specific expense projections, is provided on the next page:

CITY OF ATLANTA
GENERAL FUND REVENUE AND EXPENSES FORECAST
FISCAL YEARS 2010 THROUGH 2014
BASELINE PLANNING SCENARIO

	FY10 Budget	FY11 Projection	FY12 Projection	FY13 Projection	FY14 Projection
Revenues					
Operating Expenses	\$ 513,970,985	\$ 534,667,209	\$ 536,912,518	\$ 553,969,293	\$ 568,241,728
Personnel Services	208,386,593	209,540,260	209,540,260	211,536,353	211,536,353
Health Insurance (Employee & Retiree)	41,899,171	46,245,613	50,870,175	56,329,872	61,962,859
Pension (Defined Benefit)	69,141,832	74,810,482	77,954,896	81,684,208	84,911,442
Operating Expenses	61,040,757	61,040,757	62,871,980	64,758,139	66,700,883
Utilities	16,956,152	18,312,644	19,777,656	21,359,868	23,068,658
Fleet Services (Fuel)	3,638,605	3,966,079	4,323,027	4,712,099	5,136,188
Fleet Services (Repair & Maintenance)	7,938,355	9,129,065	10,498,448	12,073,215	13,884,198
Non-Departmental (Other Expenses)	30,566,654	35,748,221	27,395,993	27,895,993	30,665,485
Water Bills (Current)	4,887,364	5,475,785	6,132,879	6,132,879	6,132,879
MOU (Loan Repayment & Old Water Bills)	10,000,000	14,000,000	14,000,000	14,000,000	14,000,000
Interest (MOU & TAN)	7,175,385	5,569,583	5,424,164	5,271,771	5,271,771
Debt Service	52,360,137	44,804,789	40,954,850	37,689,336	33,441,248
Infrastructure-Reactive Repairs	-	3,300,000	3,795,000	4,364,250	5,018,888
Beltline Parks Maintenance	-	964,790	1,614,070	1,902,188	2,221,755
800 Mhz Radio Maintenance Costs	-	870,700	870,700	870,700	870,700
Corrections, transfer medical staff to GF	-	888,421	888,421	888,421	888,421
Oracle Upgrade	-	-	-	2,500,000	2,500,000
Mandatory Restricted Reserve (5%)	27,051,104	27,299,518	27,732,170	28,140,873	28,544,804
Total Expenses (Operating & 5% Reserve)	\$ 602,359,399	\$ 623,953,427	\$ 614,443,688	\$ 632,110,156	\$ 645,729,582
Unexpended Reserves	\$ 27,051,104	\$ 11,323,152	\$ 17,730,875	\$ 8,848,160	\$ 2,654,358
Contribution to Capital Finance Fund	\$6,762,776	\$2,890,788	\$4,432,719	\$2,212,040	\$663,589
Contribution to Rainy Day Fund	\$20,288,328	\$8,492,364	\$13,298,156	\$6,636,120	\$1,990,768
*General Fund Fund Balance	\$26,288,328	\$34,780,692	\$48,078,849	\$54,714,969	\$56,705,737

*NOTE: General Fund fund balance for FY10 assumes a \$6 million carryforward from the audited FY09 financial results.

It is equally important to note, however, what is not included in the five year projections. The forecasts are based on the City's current service level. Despite numerous cuts made in response to the recession, a number of important activities go unfunded in the projection. Most notable are the following:

- No replacement of fleet (vehicles and equipment).
- No employee cost of living adjustments or raises.
- The amortization period for the City's pension funds remains at a rolling 30 years.
- No increases in service levels.
- No new investment in capital infrastructure such as bridges, roads, sidewalks, and traffic lights.
- Baseline financial projections show an increasing reliance on restricted reserves to cover operating expense.

Priorities and Planning Scenarios

Priorities

Ordinance 09-0-1406 requires this plan to analyze and quantify the cost of eight specific financial goals as outlined on the chart below. The financial plan achieves progress on half of the financial stability priorities and includes them in the baseline. The remaining priorities are included in the planning scenarios as shown below.

Priorities	Coverage
1 Elimination of all deficit positions in the funds supported by the General Fund and elimination of the Memorandums of Understanding of borrowing from the cash pool.	Baseline, Planning Scenario
2 Identification of a funding source for additional police officers added in FY 2010 under the COPS program by 2013.	Baseline
3 Examination and reduction of the amortization period of the Unfunded Actuarial Accrued Liability for all three pension plans.	Planning Scenario
4 Identification of a funding source to make lease payments to replace the City's rolling stock.	Planning Scenario
5 Reinstatement of cost of living increases for employees in order to retain quality personnel as the economy improves.	Planning Scenario
6 Identification of a funding source to repay any other obligation the City undertakes associated with Federal or State governments which require such repayments.	Baseline
7 Establishment of a General Fund balance of \$100 million (rainy day fund).	Baseline, Planning Scenario
8 Establishment of future Bond Issues to fund long term infrastructure needs of the City.	Planning Scenario

Key:

Baseline = Progress on the priority is included in the baseline model of financial analysis and projections

Planning Scenario = Progress on the priority is included as additional what-if analysis and projections (supplemental to the baseline financial model)

Priority 1 – Elimination of All Deficit Positions

The baseline financial plan includes progress on eliminating the deficit positions and cash pool borrowing. The baseline financial plan includes a funding source to repay the City's General Fund water obligations per the terms of the memoranda of understanding. General Fund revenues will be the funding source.

While significant progress is made, the initial projections included in the baseline financial model do not show complete correction of all deficit positions in the next five years. It is recommended that fiscal discipline be maintained to correct deficit positions. In some cases, this may take more than five years to accomplish.

Fund positions and projections for E911, Solid Waste, and Underground are covered in a devoted section later in this document.

Priority 2 – Identification of a Funding Source for Police Officers Provided under COPS

The baseline financials shared earlier include identifying a funding source for extra police officers currently provided under the COPS grant. The cost of doing this is \$3.2 million a year. General Fund revenues are planned to be the funding source.

Priority 3 – Examination and Reduction of the Pension Plan Amortization Period

Like many public and private organizations, the City's retirement obligations are a source of concern. As of FY 2008, the City's unfunded liability was \$1.2 billion and is expected to be in the same range for FY 2009. At the start of FY10, we changed the amortization method of all three City defined benefit pension plans. This adjustment had the impact of saving over \$25 million a year of cost for the City's General Fund and an additional \$17 million for all other funds. However, in the long term (30 years) this amortization adjustment will ultimately increase pension costs by \$800 million. We must begin to reduce the City's unfunded liability balance and rethink our retirement programs, so periodic pension plan review is necessary.

Information from the City's pension plan actuaries was provided and analyzed as a part of this effort. As detailed in the table below, switching to a 25 year amortization after FY12 would increase annual pension costs across all City funds by \$8.9 million in FY13 and by \$11.1 million in FY14. The projected General Fund impact is \$3.9 million and \$5.8 million respectively. This assumes a 7/1/2012 implementation across all three defined benefit plans.

Fiscal Year	Estimated Incremental Cost of a 25 Year Rolling Amortization Plan*				
	2010	2011	2012	2013	2014
General Fund	NA	NA	NA	\$ 3,922,997	\$ 5,792,729
Solid Waste	NA	NA	NA	384,120	384,120
Department of Aviation	NA	NA	NA	1,081,255	1,420,323
Department of Watershed Management	NA	NA	NA	2,965,033	2,965,033
All Other Funds	NA	NA	NA	554,945	554,945
Total Estimated Incremental Cost to the City				8,908,350	11,117,150

*Estimates assume a 7/1/2012 implementation of the new amortization plan across all defined benefit pension plans

The City must take action to both reduce unfunded liabilities and manage the costs while keeping our overall compensation package competitive and providing for City retirees. A review is currently in process of the City's pension plans.

Priority 4 – Identification of a Funding Source to Replace the City’s Fleet

Significant funds to replace the City’s aging fleet have not been available in recent years. This will begin to impact service delivery if not provided for. Over 55% of current fleet equipment is already past its lifecycle. The following table shows the need for fleet replacement over a four year time frame (an average of about \$10 million per year from FY11 to FY14). It includes the necessary investment to catch up on the City’s backlog for fleet replacement.

	Annual Capital Requirement				
	FY10	FY11	FY12	FY13	FY14
GENERAL FUND DEPARTMENTS					
OFFICE OF THE MAYOR & ENTERPRISE ASSET MANAGEMENT	-	209,764	250,416	241,351	468,152
DEPARTMENT OF INFORMATION TECHNOLOGY	-	15,968	16,447	16,940	74,859
DEPARTMENT OF CORRECTIONS	-	310,263	255,785	263,468	303,076
DEPARTMENT OF FINANCE - RISK MANAGEMENT	-	-	-	-	17,481
DPW - TRAFFIC/TRANSPORTATION/FLEET	-	5,338,910	4,794,835	4,689,327	5,471,145
DEPARTMENT OF PARKS & RECREATION	-	2,025,848	2,169,825	2,326,563	4,243,650
OFFICE OF COURTS & SOLICITORS	-	23,329	24,028	24,749	79,508
FIRE DEPARTMENT	-	8,591,776	3,594,488	3,308,187	4,218,309
POLICE DEPARTMENT	-	10,694,911	5,291,882	8,291,096	9,836,752
DEPARTMENT OF PLANNING & COMMUNITY DEVELOPMENT	-	22,705	1,389,738	507,108	41,820
FY2011-2014 - GENERAL FUND		\$27,233,474	\$17,787,444	\$19,868,779	\$24,758,752
ASSUMES 4 YR @ 5% LOAN/LEASE PAYMENTS		\$7,314,440	\$12,891,840	\$17,374,533	\$24,023,231
PUBLIC WORKS - SOLID WASTE DEPARTMENT					
PUBLIC WORKS - SOLID WASTE DEPARTMENT	-	5,673,238	7,135,358	11,901,497	7,660,593
FY2011-2014 - SOLID WASTE FUND		\$5,673,238	\$7,135,358	\$11,901,497	\$7,660,593
ASSUMES 5 YR @ 5% LOAN/LEASE PAYMENTS		\$1,247,878	\$2,817,584	\$5,435,621	\$7,129,774

Funding the fleet need for General Fund assumes a revolving 4 year loan at 5% interest. Funding the fleet need for the Solid Waste Fund assumes a revolving 5 year loan at 5% interest. There are other financing options that could be utilized to address the entire need.

Priority 5 – Reinstatement of Cost of Living Increases

Retaining good employees long-term is critical to smooth City operations. The current position and salary structures do not fully support this goal.

City employees have not had any cost of living adjustments in FY09 – FY10. This means that the City pay rates have not included any adjustments for inflation. The City needs to reward superior individual performance. Most organizations do this by instituting a variable pay component that is based on annual results.

As part of this plan, analysis was conducted on the cost of implementing a 2.5% cost of living adjustment or performance based pay system starting in FY11. This amount is not currently in the baseline financial projections. At 2.5% of current salaries, the cost is just

over \$7 million per year. This includes the incremental impact that salary changes will have on City benefits such as pension.

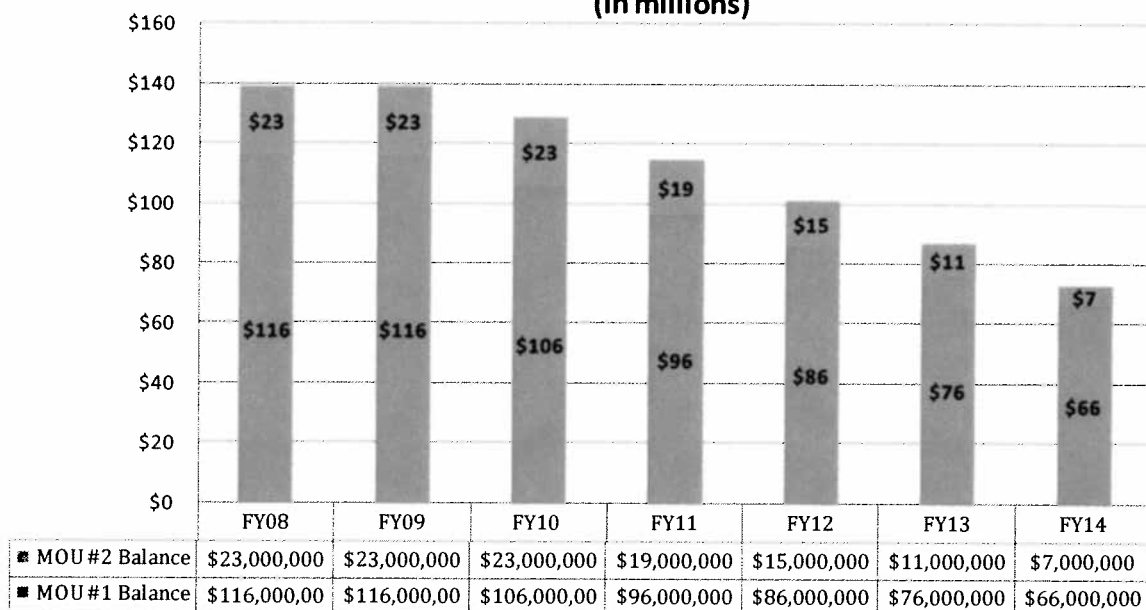
The City also needs to become an employer of choice. By investing in personnel development, job rotation, and cultivating future leaders internally, a culture of continuous improvement and learning can be fostered.

Priority 6 – Identification of a Funding Source to Repay City Obligations

The baseline financials shared earlier include identifying a funding source for the extra police officers currently provided through the federal JAG grant. These officers are maintained through general fund revenues. The incremental cost of this is \$1.8 million a year.

While not federal or state in nature, another key City obligation is to repay the Department of Watershed Management (DWM) \$116 million for cash borrowing through FY08, and \$23 million for unpaid water and other bills. These memoranda of understanding were established in FY08 to govern repayment. Significant progress in paying off this general fund liability is part of the baseline financial plan. In FY10, \$10 million will be paid from the General Fund to DWM plus interest on the outstanding balance. Below is a summary of the outstanding liability projected by fiscal year.

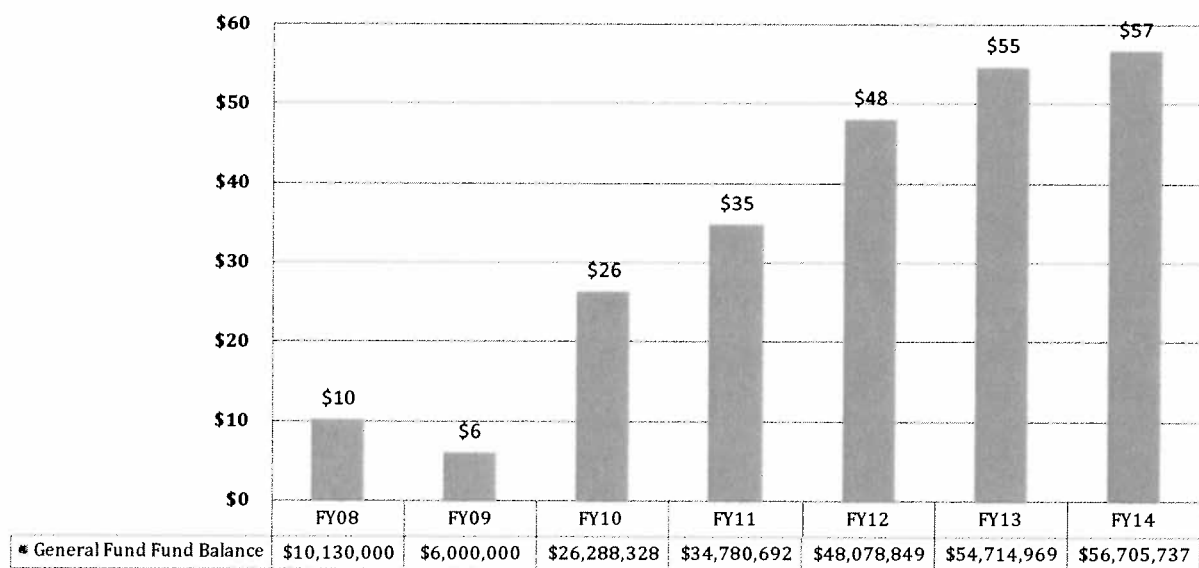
**Watershed Memoranda of Understanding Obligations
(in millions)**



Priority 7 – Establishment of a General Fund Balance of \$100 Million

The baseline financials include making significant progress on establishing a general fund balance of \$100M. As shown below, under the baseline, current services model, the general fund balance will grow to \$57 million. The net cost or savings necessary to grow it to \$100M is \$43 million. Note that this amount is after a mandatory transfer of 25% to the Capital Finance Fund per City code.

**General Fund Fund Balance Projections
(in millions)**



Priority 8- Establishment of Future Bond Issues to Fund Long-Term Infrastructure

As with virtually every other major U.S. city, Atlanta has significant infrastructure requirements with very limited funding options. The City's infrastructure needs include roads, bridges, sidewalks, traffic signals and facilities. The State of the City's Infrastructure report dated December 2008 identified \$3.1 billion of infrastructure requirements over the next 25 years, of which about \$700 million represents a backlog.

The City's ongoing review of its infrastructure requirements has resulted in long-term bond financing as the optimum tool. The issuance of long-term debt allows the City to match the useful life of the asset over the amortization period of the debt. The issuance of General Obligation debt is an attractive financing tool because it is backed by the full faith, credit, and ad valorem taxing powers of the City.

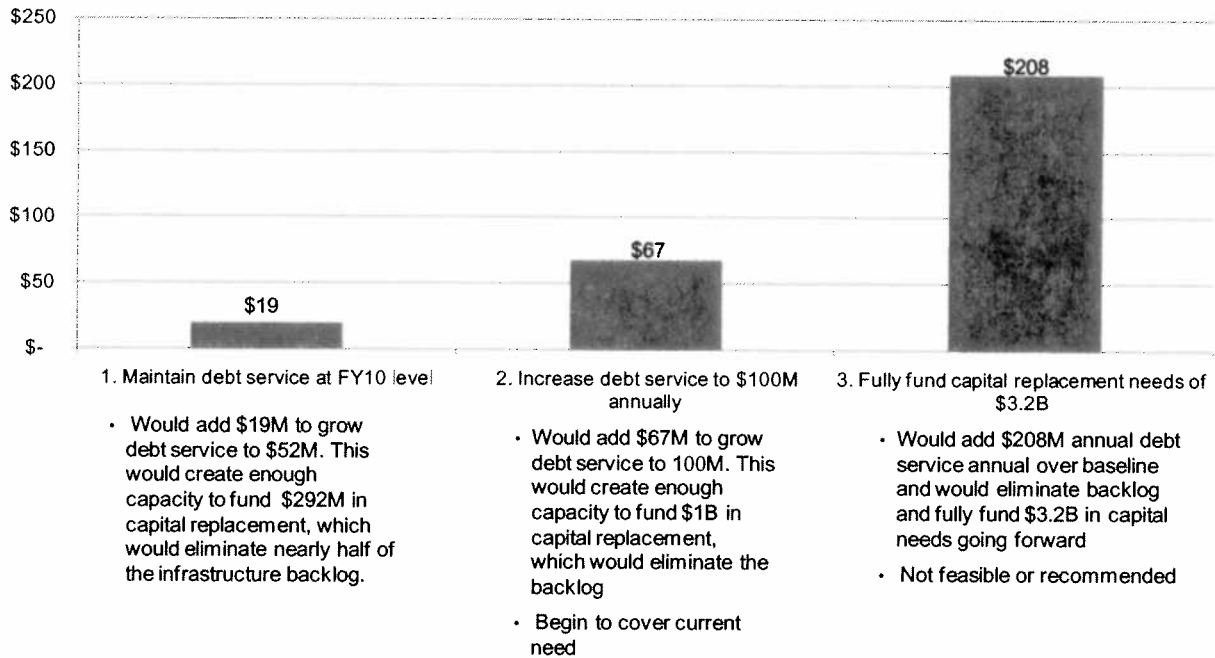
General Obligation debt backed by City ad valorem taxes allows the City to achieve a favorable interest rate given the City's substantial tax base. The City has issued General Obligation bonds pursuant to referenda approved by the voters to address its most recent long-term capital needs. The credit markets and bondholders are familiar with this financing tool and its reliable track record to repay long-term debt.

Many U.S. cities seek successive bond referendum in regular yearly increments; this allows the debt burden to be spread over a more manageable period of time. This also ensures flat debt service levels without any significant rises in payments; the City would essentially issue new debt as old debt is retired, which allows the tax rate supporting the debt service to remain at reasonable levels.

The City is currently prioritizing its capital requirements and the necessary bond sizing options. The critical path to addressing these needs will require input and voter approval by Atlanta citizens, who are the ultimate beneficiaries of an improved City infrastructure.

The City could request voters to approve multiple bond issues every five years for the next 25 years, and set a maximum property tax rate to finance the debt service payments. This approach would allow the City flexibility to work with its bond financing team and monitor the credit markets in order to obtain the lowest possible interest rates available. The following chart shows three possible scenarios for funding the City's infrastructure needs.

Annual Debt Service Requirement Under Three Infrastructure Replacement Scenarios (\$ in millions)



NOTE: Level of debt service are subject to bond market conditions

Assumes 30 year, 5% interest, level debt service

Planning Scenarios

Policy decision makers in the next five years may consider enhancements to service levels. The scenarios identified below have been discussed in recent years and are included in the report for information only.

Reopen the Closed Recreation Centers

Over the course of the last year and a half, financial constraints have caused the City to close 16 recreation centers and pools. Currently, 17 centers and pools are open (6 of which are funded through public/private partnerships). Reopening the closed facilities would cost approximately \$5.3 million per year.

The open facilities are now working to service the needs of citizens on a regional basis. This is an evolving leading practice in cities of Atlanta's size. Where implemented successfully, the results are often better maintained facilities with well-planned citizen

transportation. Based on this, it is recommended that further review is completed to determine which facilities are most essential to reopen, if any. These facilities should have a clear need and be financially sustainable long-term. Also, rather than reopening closed facilities, an alternative is to increase investment in the current facilities to serve the region.

100 Additional Sworn Police Positions

Continuing to improve public safety is a key imperative for the City. The cost of adding 100 officers to the Atlanta Police Department is approximately \$100,000 per officer or \$10 million per year. This includes salaries, benefits, training, and equipment.

Enhance Code Enforcement

Adding code enforcement personnel helps the City take action on property violations. The cost of twenty-five additional personnel is approximately \$2 million per year. This includes salaries, benefits, training, and equipment.

Eliminate Fire Station Brownouts

Fire stations are currently funded for the positions identified in the FY10 Budget. In the five year baseline plan, the staffing levels remain the same. However, due to turnover of staff, retirements, planned and unplanned leave there may times when the staffing is not sufficient to staff engines and/or fire stations. The only way to eliminate the brownouts is to hire additional personnel or fund overtime to provide additional coverage to handle these unforeseen staffing shortages. The cost to eliminate all fire station brownouts is approximately \$3.1 million per year. In order to attain 4 person staffing per engine/truck, the City would need to add 70 positions at a cost of approximately \$4.9 million per year.

Enhance Department of Public Works

The Department has significantly reduced staff resources to repair sidewalks, streets, potholes and to perform right of way maintenance. This has increased the backlog of work orders and will impact the condition of infrastructure over time. To increase the turnaround on work orders and improve preventative maintenance activities it will cost approximately \$3 million - \$4 million a year.



Replace Technology Infrastructure

The City's technology infrastructure creates the backbone for service delivery. It includes the systems that support crime enforcement, payment processing, financial tracking and on-line services. The City needs to build redundancy in its aging systems and does not have adequate disaster recovery capabilities to protect its key systems. This could jeopardize citywide service delivery. This is an area that will require further study and quantification.

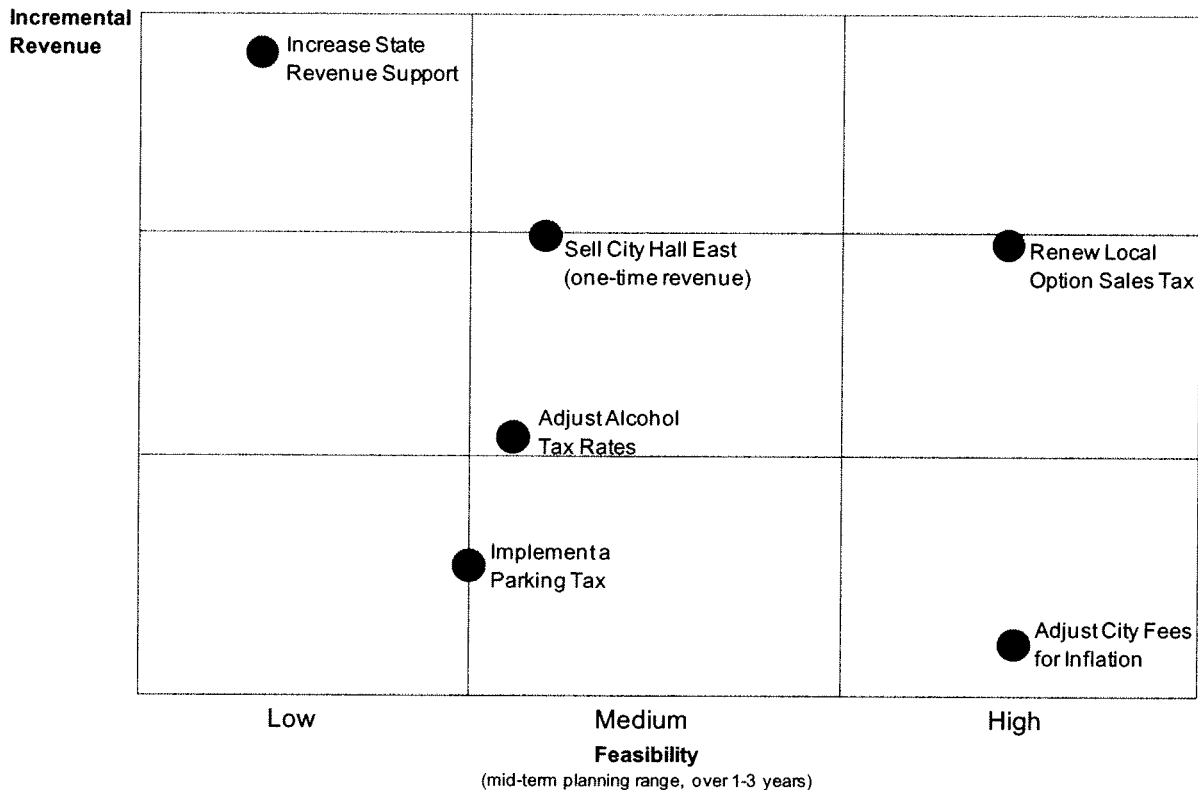
Revenue Initiatives

The five year plan legislation requires a discussion of specific revenue initiatives that could be pursued.

Overview

The City of Atlanta has experienced a 25% population growth over the past decade, however its revenues adjusted for inflation remain flat. City revenues must increase to meet its public service demands and strengthen its financial position. The City's service delivery requirements within the Atlanta Metropolitan Statistical Area (MSA) are consistent for a major American urban city, yet the revenue options are not commensurate to address these needs.

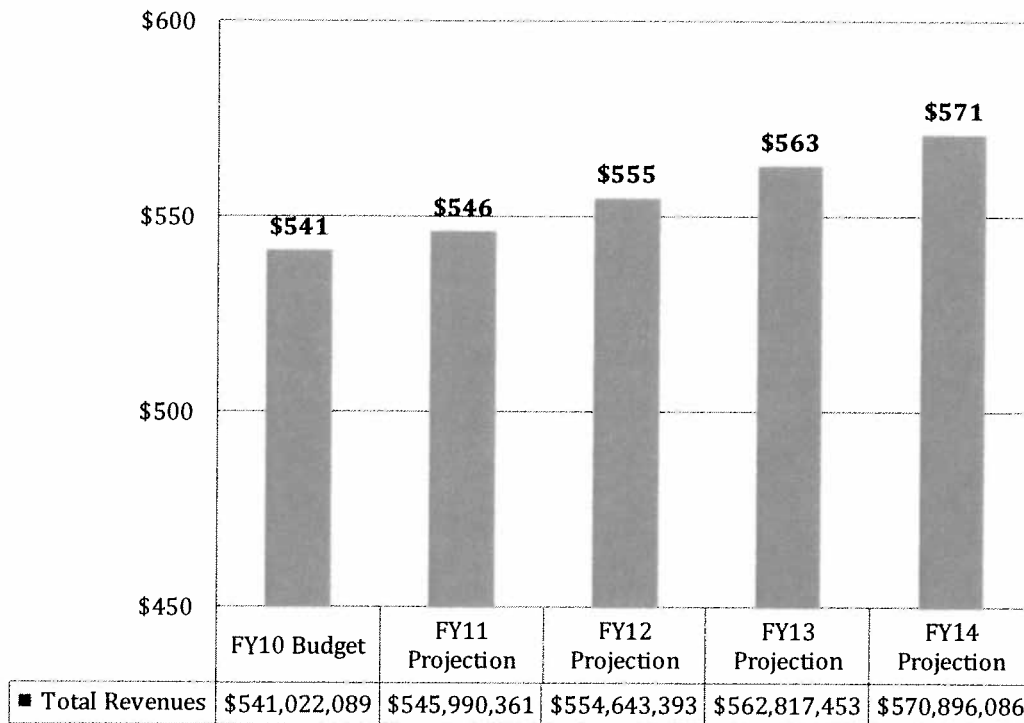
There are a number of proactive revenue initiatives that should be considered and pursued. Potential initiatives are included in the following chart and directionally plotted in terms of incremental revenue and feasibility.



The City has a limited number of potential revenue growth initiatives. Due to the City's dependence on state legislative action, the further challenge is that most are not easy to implement.

In the following sections, each potential revenue initiative is summarized in terms of its purpose, potential financial impact, actions necessary to implement, and key risks.

General Fund Revenue Projections (in millions)



Increase State Revenue Support

Revenue Initiative

Based on data from the U.S. Census and Bain & Company, the average State revenue support for major U.S. cities is 15%. However, the City of Atlanta received less than 1% to support its General Fund operations in FY09.

This initiative would request that the State increase its inter-governmental support. The City of Atlanta status as the capital of the State of Georgia and its strategic location in the Southeast quadrant of the United States has proven to be a catalyst for regional economic

growth. This growth has resulted in increased operating and capital requirements for Atlanta, which in many other U.S. cities are supported by increased inter-governmental support.

Purpose

This initiative seeks to increase the City's share of inter-governmental support to ensure that Atlanta remains a significant source for regional growth. The City is requesting that its revenue options be broadened to include state support similar to other U.S. cities throughout the nation.

Fiscal Impact

This initiative could generate much needed funding to support the City's core service requirements. An additional 10% in State support would equate to \$54 million based on the FY10 budget.

Action Steps

The City's legislative package should include an item requesting additional state support.

Risks

Due to the recession, the State's economic forecast shows declining revenues and therefore may be unlikely to increase support.

Renew Local Option Sales Tax (LOST)

Revenue Initiative

The authorization of the 1% Municipal Option Sales and Use Tax (MOST) on October 1, 2004 has identified the inequities of the City's General Fund Local Option Sales and Use Tax (LOST). The current LOST allocation directly correlates with the City's population relative to the other jurisdictions population within Fulton County. Renewing LOST based on the City's increased population will result in the City deriving a more equitable LOST share.

The MOST allocation is derived from sales tax activity where the customer takes delivery of the item being sold or an item is used within the incorporated city limits. MOST revenue has consistently exceeded LOST revenue by as much as \$25 million. This indicates that the City of Atlanta is the retail center within Fulton County and is not receiving its proportionate share of the taxable retail sales within the City's corporate limits.



Purpose


The purpose of this initiative is to achieve equitable distribution of LOST. The MOST revenue and the City's current population trend provides compelling evidence of the disparity in the current LOST allocation as it pertains to the City of Atlanta's share.

Fiscal Impact

This initiative would result in up to \$18-\$20 million in additional LOST revenue based on the City's current population basis. LOST projections based on a MOST or point of use and delivery methodology would be \$4-\$7 million higher than the population methodology.

Action Steps

The State law stipulates the timeframe for renegotiating a new sales tax certificate is no later than December 30 of the second year following the year in which the census is conducted. In accordance with the law, Fulton County is responsible for commencing renegotiations on or before July 1 2012; i.e., the second year after the census is conducted.



If the county does not call the meeting by July 1, then any municipality can call the meeting and notify the Georgia Revenue Commissioner. "If the parties fail to reach an agreement within 60 days, then the parties must submit the dispute to nonbinding arbitration, mediation or such other means of resolving the dispute. If the parties fail to reach an agreement within 60 days of nonbinding arbitration or mediation, then any party may file a petition in Superior Court. Such petition may be assigned to a judge pursuant Code Section 15-1-9.1 or 15-6-13 who is not a judge in the circuit in which the county is located. The judge selected may also be a senior judge pursuant to Code Section 15-1-9.2 who resides in another circuit."

Another alternative is to include an amendment to the State law that would add as criteria for sales tax allocation, the actual sales tax activity generated within the corporate limits. Specifically, this would include transactions where the customer takes delivery of the item being sold or an item is used within the incorporated city limits.

Risks

The provision that invalidates sales tax collection if the dispute between jurisdictions has not been resolved has been deleted from State law. The Georgia Revenue Commissioner would now distribute sales tax collection based on the existing certificate or in accordance with subsection (f) of Code Section 48-8-89-1 if parties do not agree on a renegotiated certificate by the stipulated time.



Adjust City Fees for Inflation

Revenue Initiative

This initiative would introduce City legislation that assesses an annual consumer price index (CPI) on City's fees in order to recover the direct costs incurred by providing specific service delivery.

Purpose

A number of City fees currently do not cover operating costs. The CPI rate is intended to ensure that fees are annually adjusted for inflation and provide breakeven performance.

Fiscal Impact

This initiative could add incremental revenue of \$100,000-\$1 million on an annual basis to the General Fund. The low end of this range assumes business licenses are not included in the periodic adjustments. The high end of this range assumes business licenses are subject to periodic adjustments for inflation.

Action Steps

The key action steps to implement this initiative are the preparation of departmental cost recovery justifications and City Council approval.



Risks

Key risks or challenges of this initiative may include limited City Council and citizen support. This initiative requires Council approval for implementation. To mitigate these risks, it is suggested that departments compile current list of City fees and prepare cost recovery analyses and justifications for finance and legal review.

Adjust Alcohol Taxes

Revenue Initiative

This initiative is comprised of three legislative requests: Wholesale Alcohol Tax, Alcohol Tax-By-the-Drink, Beer and Wine By-the-Drink Tax. The following proposed increases would assist in defraying the increasing public service delivery requirements.

Increase in the Wholesale Alcohol Excise Tax

This proposal would amend the City Charter via General Assembly approval and would give the City the authority to impose an excise tax on the sale of distilled spirits by the package, at the wholesale level. The current rate of \$0.22 per liter of distilled spirits, excluding fortified wines; the proposed rate is \$0.33 per liter of distilled spirits, excluding fortified

wines. This excise tax currently generates \$10 million in tax revenues. A \$0.11 per liter increase would result in an additional \$5 million in tax revenues.

Alcohol Tax-by-the-Drink Excise Tax

This proposal would amend the City Charter via General Assembly approval and would give the City the authority to increase the existing alcohol excise tax by-the-drink from 3% to 5% of the purchase price. A 5% excise tax would result in an estimated \$8 million in revenues based on estimated gross receipts of \$160 million. The net increase would be \$3.2 million.

Beer and Wine Tax-by-the-Drink Excise Tax

This proposes an amendment to the City Charter by which the General Assembly would give the City the authority to impose an excise tax by-the-drink on beer and wine at three percent (3%) of the purchase price. The City currently has a 3% tax-by-the-drink excise tax on mixed drinks. This proposed excise tax is estimated to generate \$2.5 million dollars annually.

Fiscal Impact

This initiative could generate \$10 million in additional revenue to support the City's General Fund.

Action Steps

To implement this initiative will require approval by the Georgia General Assembly. Upon approval, an ordinance would be enacted by the City.

Risks

Key risks or challenges are limited support by the Atlanta/Fulton delegation and ultimate approval by the State legislature.

Implement a Parking Tax

Revenue Initiative

A number of major U.S. cities have enacted legislation to impose a parking tax within their corporate limits. The Atlanta City Council passed resolution 02-R-0256, establishing a Parking Surcharge Study Committee which purpose was to explore the feasibility of a surcharge on parking receipts in the City of Atlanta. Resolution 02-R-0256 passed in February 2002 that required the taskforce to prepare a report to the Finance/Executive Committee no later than July 1, 2002. The taskforce prepared a report that recommended a parking tax based on gross receipts. The proposed tax would be in the form of an excise tax on "commercial area, space, garage, parking structure or other facility upon or in which

motor vehicles are parked, stored or housed.” This proposal takes the correct approach in seeking authority from the General Assembly in order to seek an additional source of revenue to assist in defraying transportation related operating costs currently funded by scarce General Fund revenues. Whether stated as a “surcharge” or directly identified as an “excise tax,” additional charges levied on the right to park in the City that are for general revenue purposes would require authorization from the General Assembly.

Purpose

The imposition of an Atlanta parking tax would meet an important public purpose in mitigating the transportation and environmental costs borne by the City to provide service delivery to both residents and non-residents. The City has made several important transportation policy initiatives that include increasing the number of metered parking within its primary business districts. Parking meter revenue however is not sufficient enough to defray the transportation related costs incurred by a high concentration of vehicular traffic.

A parking tax would assist in offsetting the City’s transportation requirements attributable to the influx of vehicular traffic at City venues and attractions. Atlanta motorists and visitors are drawn to the City’s substantial eating and drinking places, sporting venues and high quality retailers. This mix of attractions also contributes to increased traffic and congestion and ultimately road and street maintenance costs incurred and funded through a limited amount of General Fund revenues.

Fiscal Impact

This tax surcharge would be imposed at the rate of 10% of the gross revenue of commercial parking facilities within the City limits. The tax is estimated to generate \$4.2 million.

Action Steps

To implement this initiative will require approval by the Georgia General Assembly. Upon approval, an ordinance would be enacted by the City.


Risks

Key risks or challenges are limited support by the Atlanta/Fulton delegation and ultimate approval by the State legislature.

Sale of City Hall East

Revenue Initiative

The City reviews its building, land, and structures and makes recommendations as to sale, financing, and/or purchases based on real estate market conditions. The City recently



constructed a new Public Safety headquarters that will be the permanent office space for its public safety personnel. These City personnel were previously located at City Hall East. As a result, the sale of City Hall East has been identified as an opportunity for the City to dispose of a currently underutilized asset.

Purpose

The sale of City Hall East would provide a one-time cash infusion to the City.

Fiscal Impact

The additional cash from this transaction is to be determined.

Action Steps

Assess options subject to legal and real estate market conditions.

Risks

Key risks or challenges are current real estate market conditions.

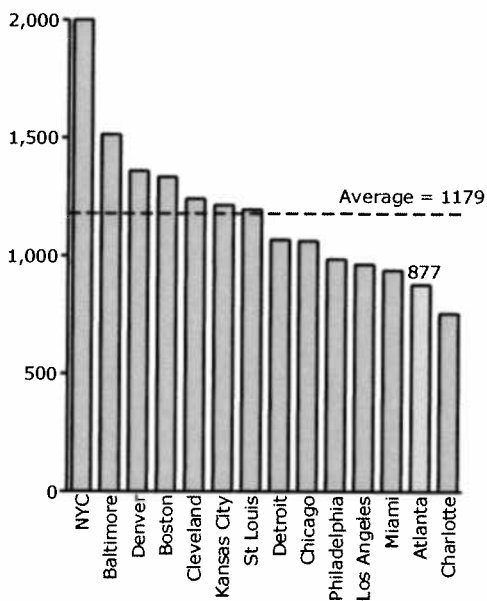
Cost Saving Initiatives

Major Initiatives

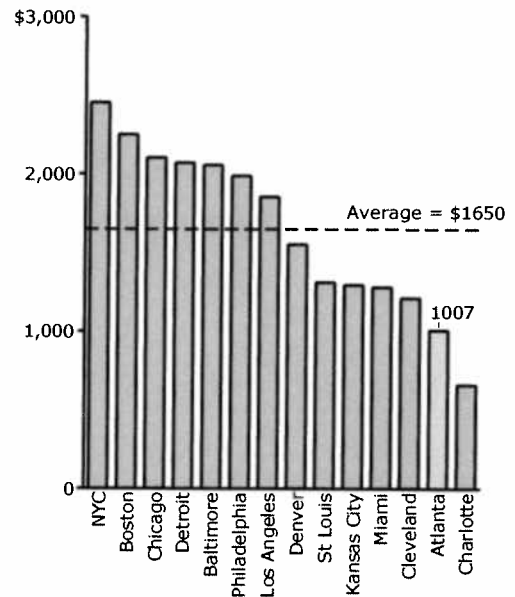
The City has been very active in bringing costs in line with projected revenues. Since 2001, the City has reduced its workforce from 5,617 to 3,934 (a 30% decline). In addition there has been permanent non-personnel reductions totaling \$12 million.

The question remains, can costs be cut further within the City? Facts show that the City is likely reaching the threshold where further significant cost cutting severely impacts service delivery. Peer City benchmarking conducted by Bain & Company shows that the City has moved from the last quartile of efficiency (least efficient) to the first quartile (most efficient) over the past eight years. Among Atlanta's peer cities, this external data indicates that Atlanta is a leader in efficiency.

2009 general fund employees per 100k residents



2009 general fund spend per resident



Source: Bain analysis, respective cities FY2009 budgets, US Census Bureau, Office of the CFO

Significant further cost reduction will likely need to come from the sale of key City assets and additional outsourcing. Key City assets that could feasibly be sold in the next five years include the Jail and City Hall East. Unfortunately, many other City assets have restrictive leases and other covenants that should be fully analyzed before taking action. The City is currently reviewing options that will forego its operation of the Jail to another provider. This will allow the City to manage its budget on a cost per bed basis.

There are several current services that could be considered for outsourcing. Services such as Solid Waste, Fleet Services, and other administrative functions should continue to be reviewed for opportunities to outsource these activities. There should be an updated in depth study conducted by a qualified third party to determine the viability/feasibility and value of each service in an outsourcing strategy. Outsourcing of City services should be considered only with a realistic expectation and supported by a clear long term cost benefit analysis. The fact is that many City operations have been cut to a level where outside providers may not realize the profit margin that is typically associated with outsourcing. Otherwise, the City runs the risk that a provider may agree to outsourcing at a lower cost that may increase significantly over time.

Other Funds Impacting the General Fund

As of the FY08 CAFR, the City has four funds that are operating in a deficit position; E911, Underground, Solid Waste, and Capital Finance. The legislation driving this five year plan has included as an objective that each of these funds are addressed. Specifically, the legislation states the need to “eliminate any deficits in funds supported by the General Fund”.

Listed below is a description of each fund with their respective FY08 fund balance and possible solutions to reduce or eliminate their negative balances.

E911 - Emergency Telephone System Special Revenue Fund

The Emergency Telephone System Fund consists of collections of an Enhanced 911 fee levied against telephone subsidies beginning in 1991. Until 1993, the collections of these fees were accounted for in the General Fund in Revenue from Charges for Services category. The current rate structure mandated by the Georgia General Assembly does not adequately cover the costs of operating this function. Revenue has never been sufficient to cover operating expenses. The General Fund has annually subsidized between 27%-42% of the cost of operations. As of the close of FY08 (CAFR) the fund balance is (\$33.5) million.

One possible solution to this fund’s deficit would be to request a rate increase from the General Assembly sufficient enough to cover costs.

Underground Atlanta Enterprise Fund

The Underground Atlanta Facilities Revenue Fund was established in 1989 to account for transactions associated with the public operations of the Underground Atlanta facilities and the parking decks. The Fund is supported by user fees, parking revenues and a General Fund subsidy. Revenues from Underground have not been sufficient to cover operating expenses. As of the close of FY08 (CAFR) the fund balance is (\$13.3) million.

The City has a master lease agreement with the tenant to lease the structure until 2086. A possible solution would be to pursue an increase in fund revenues through gaming.



Solid Waste Enterprise Fund

Solid Waste Collection Fund consists of collections of fees for: garbage, recycling, yard waste and bulk rubbish, street sweeping, de-littering, debris removal, right-of-way-cutting, dead animal removal, education and enforcement. It also includes land post-closure management and responding to city-wide emergency operations. This fund is beginning to cover its operating cost, however it is not sufficient to cover its capital needs. Also, the billing for services is 8-9 months in arrears that causes an additional cash flow problem to the negative fund balance. As of the close of FY08 (CAFR) the fund balance is a negative \$54.6 million.

Three possible solutions would be to include solid waste as a line item on the Fulton County property tax bill, increase rates, or examine the viability of this function being outsourced. Any rate increase would have to be sufficient enough to cover the cost of vehicles as well as the interest expense from borrowing to cover the delayed cash flow issues.



Capital Finance Fund

Capital Finance Fund was established to centralize all governmental capital purchases. An example of capital purchases would include vehicles for Public Safety, Public Works, and Parks & Recreation, and funding of the City's ERP solution. As of the close of FY 2008 (CAFR) the fund balance is (\$46.2) million.

This fund deficit will be decreased through the legislatively mandated 25% contribution/transfer from the remaining General Fund annual operating reserves.

Civic Center Fund

The Civic Center will require capital investments starting in FY11 between \$1.6 million. In FY11 – FY14 the projected revenues will not cover the operating and capital expenses.

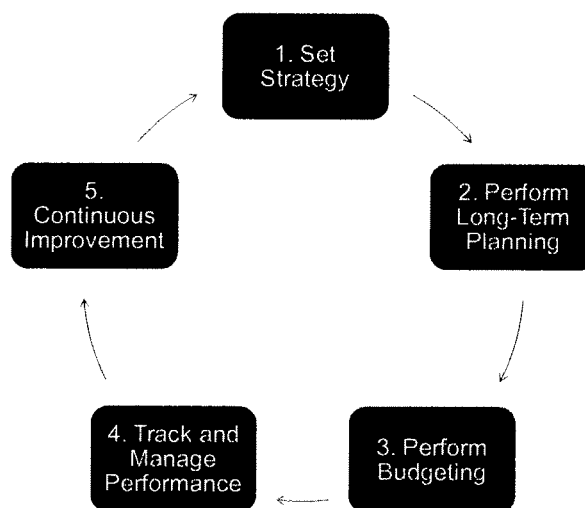
Ongoing Planning Process

Process Overview

This financial stabilization plan is to become part of a broader, ongoing performance management process for the City. A leading practice in public and private organizations is to define and integrate the processes of long-term strategic planning, financial planning, annual budgeting, reporting, and forecasting. The City is building a foundation for each of these processes then will seek to further integrate and optimize them.

Strategically, the City's performance management process starts with setting the City's strategy. This involves determining long-term priorities and goals. Second, long-term planning is conducted. This focuses on defining the strategy execution approach and modeling the associated financial impact. This five year plan is an initial foundation that covers these first two phases.

The next three phases take the strategy and define/review the tactical execution. Budgeting involves making short to mid-term decisions about targets and how to allocate resources. After this is complete, performance must be reviewed and continually improved on a daily/monthly basis. The City currently uses a combination of daily and monthly performance reports as well as its balanced scorecard initiative, ATL Stat, to perform phases four and five.



Metrics to Monitor

Key performance metrics should be established and tracked to provide a clear, ongoing focus on financial stabilization. Initial metrics that should be reviewed include the following.

Category/Metric

1. Efficient and Effective Government
--

- | |
|----------------------------------|
| 1.1 Employees per 100K Residents |
| 1.2 Expenses per Resident |

2. Financially Stable

2.1 Overall

- | |
|---|
| Credit Rating |
| Moody's Rating |
| Moody's Outlook |
| S&P Rating |
| S&P Outlook |
| Population Growth Rate (Year over Year) |
| Balanced Budget (without use of reserves) |

2.2 Revenues

- | |
|-----------------------------|
| Revenues |
| Inflation Adjusted Revenues |
| Revenue Growth Rate |
| Revenue Collection Rate |
| Grant Fund Growth Rate |
| Trust Fund Growth Rate |

2.3 Expenses

- | |
|--|
| Actual YTD Expense as a Percent of Budget |
| Percent of Fringe Benefits of Salaries/Wages |
| Total Non-Departmental / Fixed Costs |
| Non-Departmental / Fixed Cost Growth Rate |

- | |
|----------------------------|
| Annual Pension Costs (ARC) |
|----------------------------|

2.4 Balance Sheet/Cash Flow

- | |
|--------------------------------------|
| Fund Balances |
| General Fund |
| E911 |
| Underground |
| Solid Waste |
| Capital Finance |
| Pension Funding Level |
| General Employees |
| Police |
| Fire |
| Cash Flow Trends |
| Debt as a Percent of Revenue |
| Direct Net Long-Term Debt per Capita |



Responsibilities/Timing

The ongoing performance management process needs to be joint collaboration by the Mayor's Office and the Department of Finance. Specifically, the Mayor, COO, CFO, and Budget Chief can continue to improve this process. Council provides input on priorities and needs throughout the process. Also, each of the City Commissioners also play a key role in each phase by providing input on City priorities, resource needs, and tracking/improving performance. In this manner, fiscal accountability and financial improvement becomes the job of all City employees.

Recommendations and Next Steps

Recommendations

Financial stabilization will require finalizing the right portfolio of revenue growth, expense reduction, and City service initiatives. Key recommendations are to:

1. Continue to thoroughly plan for City costs and revenues to avoid surprises. Conduct cost benefit analysis on new initiatives or projects prior to making commitments.
2. Continue to question every dollar of expense as to its benefit.
3. Accumulate restricted reserves to build a strong general fund and correct other fund deficit positions.
4. Capture property tax growth by not rolling back the millage rate. Take action on new revenue opportunities. The City must become a healthy growing entity.
5. Pursue revenue expansion at the state and federal level. Currently, the City's General Fund receives less than 1% in state support. However, the average support to cities across all U.S. States is 15% (2006 U.S. Census Bureau Annual Survey of Governments, Bain & Company). In addition, many revenue rates are governed by the State of Georgia, which effectively limits the City's ability to increase revenues. Recent legislation has further constrained the City, i.e., SB 233 freeze on tax reassessments until FY 2013. In order to provide key services, revenues must be structured to keep pace with population growth and inflation.
6. Invest in the City's employees. To recruit and retain talented employees, the City must have competitive pay, professional development, and a structure that rewards results.
7. Continue to review and improve the City's focus. Significant time and resources are spent on paper-intensive, transaction processing. More time and effort should be committed to automation, higher value work, and improving service delivery.

As is common with long-term planning efforts in public and private industry, the resulting forecast should be viewed as directional in nature. We received input from external and City subject matter experts to develop the financial projections included. For example, we worked with the lead economist from the University of Georgia to develop realistic revenue assumptions and forecasts.

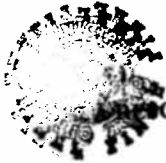


Next Steps

The immediate next steps are two-fold. First, this plan should receive healthy review. It should be a living document rather than one that is simply adopted at a point in time.

Second, the City should work to institutionalize this multi-year planning effort and take action to further integrate and improve it. This plan is a starting point to review the long-term financial impact of ongoing service/policy decisions that are material. It should be a living document that is periodically updated to promote more informed decision making. This document and the overall planning process should promote a focus on the long-term health of the City, allowing the City to better predict financial challenges and persevere through the unexpected.

APPENDIX 1



CITY COUNCIL
ATLANTA, GEORGIA

09-R-1213

RESOLUTION

BY COUNCILMEMBERS *Felicia A. Moore* FELICIA A. MOORE, *Joyce Sheperd* JOYCE SHEPERD,

Howard Shook HOWARD SHOOK, *Clair Muller* CLAIR MULLER, *Carla Smith* CARLA SMITH, *C. T. Martin* C. T. MARTIN,

Mark Norwood MARK NORWOOD, *Ivory Lee Young, Jr.* IVORY LEE YOUNG, JR., *Anne Faulkner* ANNE FAULKNER,

Cesar Mitchell CESAR MITCHELL, *Kwanza Hall* KWANZA HALL, *H. Lamar Willis* H. LAMAR WILLIS, *Jim Maddox* JIM MADDOX,

Natalyn Mosby Archibong NATALYN MOSBY ARCHIBONG AND *Cleta Winslow* CLETA WINSLOW

A RESOLUTION AUTHORIZING THE DEVELOPMENT AND ADOPTION OF A 2009-2014 FINANCIAL STABILIZATION PLAN BY OCTOBER 15, 2009; OUTLINING FISCAL STABILIZATION PRIORITIES, BY PREFERENCE, TO BE INCLUDED IN THE PLAN; AND FOR OTHER PURPOSES.

- Whereas, The City of Atlanta is facing unprecedented short and long-term budget challenges; and
- Whereas, The Chief Financial Officer (CFO) for the Department of Finance has stated that the FY2010 budget must be viewed only as a first step in the financial recovery of the City; and
- Whereas, The CFO has stated that the City's financial recovery will need to span several years, and that priorities will need to be established and considered before the City undertakes any new spending; and
- Whereas, The CFO's comments are supported by recent audits, assessments and rating agency actions; and
- Whereas, On April 1, 2008 the City's Internal Auditor submitted a performance audit report on the 2008 General Fund Budget process; and
- Whereas, Among other things, the Internal Audit called for the City to establish policies to guide long and short-term financial planning and monitoring, which includes the maintenance of fund balance; the use of non-recurring and surplus revenues; development of 5-year financial forecasts and interim financial reporting; and
- Whereas, In January 2009, Deloitte Consulting conducted a pro-bono assessment of the Department of Finance and provided recommendations for improvement,



focusing solely on business processes, and did not review the financial condition of the City; and

Whereas, In March 2009, Moody's Investor Service downgraded to A1 from Aa3 and assigned a negative outlook to the City of Atlanta's general obligation rating; and

Whereas, Moody's stated that the rating for the City was downgraded based on the diminished financial position of the City's general fund, including the marked decline of fund balance levels, prolonged trend of structural imbalance and the indefinite resolution of inter-fund receivables related to accumulated deficits in other operating funds; and

Whereas, Moody's further stated that the rating could be upgraded and the negative outlook removed if the City develops and adopts a practical and achievable fiscal revenue plan that includes the near-term restoration of structural balance, replenishes the General Fund balance to satisfactory levels and demonstrates ability to maintain fund balance at enhanced levels; and

Whereas, Moody also cautioned that the City's governing board (council) reduced the operating millage rate by 21% from fiscal 2002 to fiscal 2007, resulting in a 5% aggregate decline in property tax revenues and that the City's ability to stabilize and strengthen the financial position of the General Fund will rely in part on the ability of the governing board and the city management to develop and institute a practical and achievable fiscal recovery plan; and

Whereas, In March 2009, Standard and Poor's (S&P) Rating Services also lowered its standard long-term rating and underlying rating on Atlanta's general obligation (GO) debt two notches to "A" from "AA-" based on a trend of operating deficits and declining revenues during a period of strong economic growth which leaves the City with diminished financial revenues and flexibility as it enters the current economic downturn; and

Whereas, S&P gave the City a stable outlook and stated that Atlanta's financial position has deteriorated over the past four years with unreserved fund balance that declined to its current \$5.7 million, or slightly above 1% of expenditures, from \$151.4 million, or 36% of expenditures, in fiscal 2004; and

Whereas, S&P stated that for the City to return to its previous rating will depend on management's ability to address long-term pressures and liabilities associated with its pensions, police overtime, and subsidies to the Sanitation and Emergency 911 funds; and

Whereas, To address these issues the City must establish guidelines and priorities to be contained in a comprehensive Financial Stabilization Plan.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF ATLANTA, GEORGIA that the Administration and the Chief Financial Officer is hereby authorized to develop a strategic short and long-range planning and economic forecasting, Financial Stabilization Plan, which will assist in the allocation of the city's financial resources.

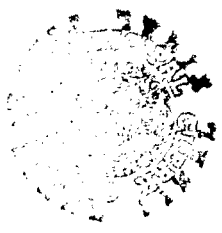
The Plan will guide multi-year planning/budgeting, utilizing trend analysis projections for financial support of city-wide strategic financial initiatives, including all City of Atlanta operating agencies.

In consultation with the Administration, the Chief Financial Officer shall be required to develop for consideration by the Finance/Executive Committee and adoption by Full Council, an annual Financial Stabilization Plan. The plan should cover a 5 year period, with detailed emphasis on years 1 through 3 and general trending information and forecasting for years 3 through 5.

The initial 2009-2014 Financial Stabilization Plan shall be submitted to Council by October 15, 2009.

The initial plan shall include, but not be limited to, the following priorities in order of preference:

1. Elimination of all deficit positions in the funds supported by the General Fund and elimination of the Memorandums of Understanding of borrowing from the cash pool.
2. Identification of a funding source for additional police officers added in FY 2010 under the COPS program by 2013.
3. Examination and reduction of the amortization period of the Unfunded Actuarial Accrued Liability for all three pension plans.
4. Identification of a funding source to make lease payments to replace the City's rolling stock.
5. Reinstatement of cost of living increases for employees in order to retain quality personnel as the economy improves.
6. Identification of a funding source to repay any other obligation the City undertakes associated with Federal or State governments which require such repayments.

- 
7. Establishment of a General Fund balance of \$100 million (rainy day fund).
 8. Establishment of future Bond Issues to fund long term infrastructure needs of the City.

Following adoption of the 2009-2014 Financial Stabilization Plan, it shall be updated annually by the Administration and the Chief Financial Officer.

A true copy,


Deputy Clerk

ADOPTED by the Atlanta City Council
APPROVED by Mayor Shirley Franklin

JUL 06, 2009
JUL 13, 2009

RCS# 3152
7/06/09
4:35 PM

Atlanta City Council

REGULAR SESSION

PERSONAL

AUTH.DEVELOPMENT AND ADOPTION OF 2009-
2014 FINANCIAL STABILIZATION PLAN
ADOPT

YEAS: 14
NAYS: 0
ABSTENTIONS: 0
NOT VOTING: 1
EXCUSED: 0
ABSENT 1

Y Smith	Y Archibong	Y Moore	Y Mitchell
Y Hall	B Fauver	Y Martin	Y Norwood
Y Young	Y Shook	Y Maddox	Y Willis
Y Winslow	Y Muller	Y Sheperd	NV Borders

PERSONAL

APPENDIX 2

Atlanta Economic Summary & Implications for Revenue Collections

By Jeffrey Humphreys, Director Selig Center for Economic Growth, Terry College of Business, University of Georgia www.selig.uga.edu (09/28/2009)

Economic Summary

Nearly one year ago, we witnessed a true financial panic. That's a rare event. For several weeks we were on the edge of a financial abyss. This unusual set of events brought Georgia's and Atlanta's economies to their knees. The recession was the worst since the Great Depression. It was prolonged. But, I believe that GA's recession ended in July or August. I know it doesn't feel like it, but the recession is over. However, I still believe that the 2nd half of 2009 will be difficult. Just how difficult depends on to what degree, the credit markets thaw, job losses become less intense, and home price depreciation diminishes. We are going to continue to see restraint in spending by consumers, who are still deleveraging. Over the last five quarters, the household savings has risen dramatically, from only 1.2% in the 1st quarter of 2008 to 5.0% in the second quarter of 2009. That's a 380 basis point increase in the savings rate. And, I think it headed towards 6%. So, right now, this fundamental realignment of household's priorities in terms of savings versus spending is only 80% complete.

To put it more simply, we will continue to feel the aftershocks of the financial panic. People and companies have lost assets; many are truly substantially less well off. The cumulative decline in households' net worth is unprecedented. Since the 1st quarter of 2007, the hit to households' net worth totals \$14 trillion. Let me put that into a perspective that's easy to grasp – the loss in net worth exceeds the total personal income for all U.S. households for all of last year (\$13 trillion). It represents 22% of households' cumulative net worth.

This massive wealth reduction accentuated the pullback in consumer spending that began before the credit markets seized up in mid-September. And, the wealth that has been lost will not easily be rebuilt. Also, credit conditions will stay tight. So, even though the economy has already bottomed out, the consumer sector of the economy will be very slow to recover. I suspect that this will be the most subdued recovery in consumer spending since WWII.

A typical recession lasts about 10 months. In contrast, this one lasted about twice that long – it was the longest downturn since the Great Depression. It was also relatively deep. Officially, U.S. GDP declined by 0.7% in the 1st quarter of 2008, rose by 1.5% in the second quarter, fell by 2.7% in the 3rd Quarter, and then the bottom fell out. GDP plunged by 5.4% in the 4th quarter of 2008 and by 6.4% in the 1st quarter of 2009. But, a month ago, we learned that the GDP decline slowed dramatically, dropping by only 1.0% in the 2nd quarter.

In the 3rd quarter and 4th quarter of 2009, I expect that U.S. GDP will rise by about 3.5% and 1.5%, respectively. But, virtually all of the growth in the third quarter will be

auto-related with the rest of the economy basically flat. In the fourth quarter, growth will be more broadly based, but the rate of growth will fall by more than one-half. That's partially because the "Cash for Clunkers" program borrowed some sales from the 4th quarter. Then, I expect the pace of GDP growth will accelerate only very slightly in 2010, advancing by 1.9% in 2010. And, then GDP will expand by 2.8% in 2011.

It looks like the peak-to-trough drop in GDP was about 4%, which is unprecedented in the postwar era, but that is less than half the 10% decline considered to be the mark of a "depression". In the Great Depression, US GDP fell between 25% and 30%. The unemployment rate rose to 25%. So, as bad as this seemed, it was not the Great Depression 2.0. Not even close.

Going forward, I expect GA's economic performance to match that of the nation. GA will not find adequate shelter from the major headwinds that still buffet the economy: tight credit, depreciated home prices, the lagged effects of unprecedented household wealth destruction, and the deepening recession in nonresidential real estate – which I fear could stress test financial markets as waves of commercial mortgage-backed securities will have to be rolled over in 2010 and 2011.

I can not completely rule out a prolonged period of economic stagnation. That's primarily because progress has been slow on fixing the broken banking system. Many banks are still holding onto many very distressed assets. And, its not just home foreclosures, many banks are heavily exposed to losses in multiunit residential developments as well as in commercial properties. So, without a systemic bank fix, even massive fiscal and monetary stimuli could fail to gain traction in a sustainable way. In fact, that's the downside risk for the economy that I worry about the most.

Still, I believe that the most likely scenario is that GA's economy, like that of the nation as a whole, bottomed out in July and is recovering. By the way, this time around our economy and that of the nation are joined at the hip. Unlike the last recession, GA and the US experienced relatively synchronized recessions that were not that dissimilar in magnitude and I believe that we will see synchronized recoveries that are very similar in magnitude.

GA's last recession was in 2001. GA's job losses are much greater this time. I anticipate a peak to trough loss of 340k jobs in this recession. That's an 8.2% drop. In the 2001 recession, GA only lost 151k jobs (-3.8%). So, the job losses are about twice as heavy.

As of August, Georgia had already lost 302,000 jobs (-7.3%) and the nation had already lost 6.9 million jobs (-5.0%). Going forward, job losses will slow dramatically, but from peak to trough the nation will lose about 7.9 million jobs, or -5.7%. Georgia's peak-to-trough loss will be 8.2%. The main reason why Georgia is getting hit harder than the nation in terms of relative job losses is the state's exposure to the housing downturn, which was the epicenter of this recession. GA was vulnerable because of a huge supply bubble and a high concentration of industries that produce building materials. Because the hole in terms of job losses is so deep, it will be sometime in 2013 before the job counts in either GA or the nation to recover to the levels attained prior to the recession.

I believe that the period of truly heavy job losses is over, but minor job losses will continue into early 2010. In fact, if my forecast that 340,000 jobs will be lost is correct, then about 89 percent of the job losses have already taken place and the remainder will take place by April of 2010.

When job growth turns positive in the spring of 2010, job growth initially will be too anemic to keep pace with the growth of the labor force. On an annual average basis, Georgia's job count will actually decline by 1.0 percent in 2010, but annual averaging obscures the pattern of mild to moderate job growth that will begin in the second quarter of 2010. More specifically, Georgia may lose a few thousand jobs in the first quarter, but will add about 50,000 in the final three quarters of 2010.

Georgia's unemployment rate therefore will continue to rise, topping out at about 11.5% in mid-2010. The unemployment rate hit 10.2% in August. It was only 4 ½ % in 2007.

One sobering statistic: In the nine and one half years since the dawn of the new millennium, there has been no net job growth in Georgia. Specifically, in December of 1999, GA had 3.9 million jobs. Now, GA has 3.9 million jobs. That's a chilling statistic. A "lost decade" like Japan experienced in the 1990s is literally baked in. And, for the nation as a whole, the job statistics are nearly as grim.

What is going to get us out of this mess? Unfortunately, I really don't see any powerful engines of growth in the private sector. Consequently, the upturn will be gradual. The lack of vigorous growth also means that initially we will have a relatively "joyless" and "jobless" upswing. But, productivity should be solid, which bodes well for profits growth as economic activity expands.

There are five headwinds that I believe will reverse, or at least become much less intense, allowing GA's economy to move forward in the remaining months of 2009.

- First, the credit markets are thawing. For example, the interbank lending market is now functioning normally.
- 2nd, single-family housing sales and starts bottomed out in the spring of this year.
- 3rd, inventory liquidation was overdone.
- 4th, barring a major supply interruption, oil prices will be lower in 2009 and 2010 than they were throughout most of 2008.
- 5th, the intense cycle of wealth destruction ended in the second quarter of 2009.

As these 5 headwinds either die down or in some cases become tailwinds, organic growth will gradually get the upper hand. After all, GA's economy expands naturally due to long-term trends such as above average population growth and increasing productivity. Plus, both Federal fiscal and monetary stimuli will be exceptionally strong, and should continue to gain traction as the credit markets gradually heal. The combination of these positive forces and a reduction in the headwinds is reviving the economy in the 3rd quarter of 2009.

Some economists argue for a more vigorous upswing based on the theory that in the wake of a deep recession there typically is a lot of pent-up demand due to both postponed purchases as well as overdone inventory liquidation, but I firmly believe that this upturn will be different. It will lack in vigor. I do not expect a classic V-Shaped business cycle.

That's partially because the wealth destruction of this recession has not only been intense, it has done much more damage to middle income households than the wealth destruction of previous recessions. That's because this time, the losses are in residential real estate, as well as in equities.

So, middle-income consumers are likely to come out of the starting gate much more slowly in the second half of 2009 than they did in the wake of prior recessions.

Also, still tight credit will ensure that growth in consumers' spending and hiring by businesses will be modest in 2010. Also, state and local governments are furloughing workers and otherwise cutting back on spending.

During the upswing that I believe began in either July or August, some sectors of GA's economy will lead the way while others will languish or continue to decline. The employment services industry will be one of the first to grow and initially will see some of the fastest growth. At the other extreme, activity in private nonresidential construction will continue to decrease dramatically. That's because the credit crunch is limiting the development of new projects in the private sector. Plus, there is a lot of vacant space. The downturns in non-residential construction will lag the overall economic cycle by 12 to 18 months. Of course, stimulus-related infrastructure spending in the public sector will be on the rise, which will help to partially fill in the gap in private-sector spending for new construction.

Speaking of construction, what's the situation in the housing market? After all it will be difficult stop the adverse feedback loop between the credit markets and housing until both show signs of stabilizing. The good news is that

- In GA, home price declines have been, and will continue to be, very modest in many neighborhoods. We have not seen a truly dramatic home price correction because there really is nothing to correct. Georgia had a huge **supply** bubble, but Georgia did not have a speculative home **price** bubble.
- The Federal Housing Finance Agency's purchase-only home price index for GA shows home prices in the second quarter of 2009 were down 11% from their peak (2nd quarter of 2007). That's about the same percentage drop experienced by the nation as a whole, but is far less than the collapses experienced in states where speculators bailed. For example, home prices have dropped by 35% in Florida.
- The steep downturn in single-family home sales has already bottomed out.
- New home construction also bottomed out this summer.

Those are very positive developments, but any realistic upturn in either home sales or home building will pale in comparison to recent plunges in activity. For example, permits to build new homes in GA have dropped about 88% since their peak in the 1st Q of 2006. That—is a free fall!

Even though we will see upturns in home sales and new home construction, we may not see existing home prices appreciate in a sustained way until 2010. That's because there is still a large inventory of unsold homes that will keep a lid on prices. And, shadow-inventory is a huge problem, especially in foreclosure ridden markets. Shadow-inventory consists of homes that normally would be on the market but are not due to very poor market conditions. But, as soon as market conditions show signs of firming that shadow inventory comes onto the market further postponing recovery. That may cause home prices to move in a sea saw pattern over the next few quarters.

Home price declines have been very sharp in many of the states that developed large price bubbles. But, by mid-2009, the rate of home price declines has slowed to a snail's pace in even the nation's most over-priced markets. Couple that with the stock market rally, and the cycle of household wealth destruction that began back in the 1st Q of 2007 came to an end in the second quarter of 2009.

With that, I predict that some positive forces for housing and the overall economy have come into play. Of course, I am assuming that the credit crisis settles down.

Housing will not stabilize unless that happens. On the demand side, the temporary \$8,000 tax credit for first-time home buyers included in the stimulus package is strengthening the starter home segment of the housing market. Since first-time home buyers do not have to sell a home before they buy a home, this tax credit is taking excess inventory off the market. Of course, the tax credit expires on December 1, 2009. So, right now is probably the sweet spot for homebuyers that have cash or can get credit. Home prices have basically bottomed, mortgage rates are still very low, and a lot of good homes are on the market.

Meanwhile when the situation in the labor market stabilizes early in 2010, personal income growth should accelerate. Even a small increase in the number of jobs will give more people the confidence, and the wherewithal, to buy homes, helping to ensure that the housing market's initial recovery is not a false dawn. Demographic trends also will provide long-term stimulus to GA's housing industry. The state's population is growing at 1.7%, or nearly double that of the nation as a whole. The newcomers will span the age spectrum to include an influx of relatively well-heeled retirees seeking affordable amenities as well as young, single, college-educated people. Such diversity ensures both an adequate supply of talented young workers as well as a growing retiree population that is slightly less exposed to the ups and downs of the business cycle than is the state's overall population.

Many of the large relocation and expansion projects announced by the Georgia Department of Economic Development will provide a tailwind to Georgia's economic growth in 2010. For example, in Fiscal Year 2009, the Georgia Department of Economic Development announced 327 economic development projects, up slightly from 321 in Fiscal Year 2008. The increase, however slight, is remarkable given the dire state of the economy. The top ten projects for FY 2009 include: NCR headquarters in Gwinnett County (1,250 jobs), NCR expansion in Fayette County (916 jobs), Cbeyond's expansion in Cobb County (625 jobs), Verizon Wireless's expansion in Fulton County (600 jobs), NCR's new location in Muscogee County (573 jobs), First Data's expansion in Fulton County (500 jobs), the Cancer Treatment Centers of America's new location in Coweta County (500 jobs), Toyo Tire's expansion in Bartow County (400 jobs), Hyundai Powertech's new location in Troup County (355 jobs), and Chicken of the Sea's new location in Toombs County (310) jobs.

Thus far, in fiscal year 2010, the Georgia Department of Economic Development continues to land major projects, including the relocation of First Data Corporation's global headquarters to Atlanta (1,000 jobs), YesVideo's expansion in Gwinnett County-ATL (300 jobs), Shaw Industry's expansion in Calhoun (200 jobs), Exide Technologies expansion in Columbus (200 jobs), and the Belgian floor manufacturer IVC Group's first US plant in Dalton (115 jobs).

Also, the state has yet to feel the full economic impact of some projects announced in FY2008. For example, the new \$1.2 billion Kia assembly plant will employ between 2,500 and 2,800 workers. A simulation shows that each job at the Kia plant will support 4.5 jobs outside the plant.

Although the upswing in GA's overall economy will not be too vigorous, there are going to be some shifts in underlying economic conditions that you need to anticipate. For example, once the recovery gains traction, you need to be prepared for the Federal Reserve to take back its rate cuts. If you have good credit and a solid business plan, 2009

through mid-2010 will be your time to borrow money at very attractive rates. By this time next year, it may be too late to get the really cheap money. I suspect that the Fed will be raising rates. And, even if the Fed fails to act, by then, market forces will push up rates due to the huge supply of government bonds that must be issued to finance the federal deficit. Basically, I am convinced that heavy-bond issuance, plus long-term concerns about the federal budget deficit, plus inflation worries stemming from those deficit concerns, plus a reduced demand for save havens, plus a weak dollar will cause yields to back up for 10-year treasuries as well as 15 and 30 year mortgages.

The main take away from my comments is that the recession is over. So, this is the time to take advantage of the economic recovery that just began. Georgia and especially Atlanta got hit somewhat harder by the recession – due primarily to an overdependence on homebuilding, but the state and the metro area are poised to participate fully in the economic recovery that began in August.

Implications of the economic outlook for the City of Atlanta's Revenues

- The timing of the economic cycle that I just described implies that any good news with respect to sales and use tax collections will be severely back loaded. That makes balancing the FY10 budget very challenging. I believe the monthly percentage declines in revenue collections will be at their worst in the first half of the current fiscal year. One thing that is killing us right now is that the comps from the prior fiscal year are still tough to beat. The bottom did not fall out of the economy – and revenue collections – until after the financial crisis in mid-September. And, any upturn in revenue collections will lag the economy recovery by at least a quarter or two. But, within a few months we will be lapping months in FY09 during which the year-over-year revenue comps will get much easier to beat. So, easy comps plus a couple of quarters of economic recovery and we should begin to get some positive monthly revenue reports. That pattern should emerge in the second half of FY 2010. But, the decisions regarding the budget must be made before any good revenue reports come in. Sales and use tax collections therefore should begin to recover in the second half of FY2010, but property tax collections will remain weak through FY2011.
- Deep recessions often promote V-shaped recoveries, but this time it will be different because tight credit and unprecedented wealth destruction will restrain growth of consumer spending and will delay hiring thereby slowing the recovery and limiting the ability of local governments to finance services.
- Consumer spending will grow very slowly (potentially for several years), limiting the push to sales and use tax collections.
- With the exception of the inventory cycle, B-to-B activity will lag the recovery in consumer spending by one or two quarters, which could be a problem for the City of Atlanta to the extent that it is more dependent on B-to-B spending than the state as a whole.
- Home price declines will persist through early 2010, eroding the residential property tax base as well as creating difficulties in collections. Two more constraints on the property tax digest to consider: First, even though home prices have not fallen dramatically in Georgia (existing single-family home prices are down about 11% in Georgia), the publicity regarding nose- dives in

Florida and other states means that property owners are going to become more aggressive when it comes to challenging their assessed property values. This will accentuate the erosion of the tax base. It also may lead to cash flow problems. Second, the rising proportion of properties on the edge of foreclosure or in bankruptcy, will delay the normal timing of revenue collections, creating additional cash flow problems for school districts.

- Beyond housing, a deepening recession in nonresidential construction will limit the growth of property tax digests in this fiscal year and the next fiscal year. Virtually all nonresidential construction subsectors will contract sharply as the pipeline of projects in development empties out and as the number of new projects shrinks to almost nothing. The downturns in non-residential real estate construction and commercial property values will continue to lag the overall economic cycle by 4 to 6 quarters. So, non-residential real estate markets are likely to remain in recession through the end of calendar year 2010. Declining nonresidential property values will put severe pressure on commercial property tax collections.
- Although higher inflation is a definite long-term possibility, the primary near-term outlook calls for very modest inflation, which will restrain revenue collections in both FY10 and FY11. More specifically, I expect consumer prices to decline by 0.5 in calendar year 2009, to rise by 2.0% in calendar year 2010, and to rise by 2.5 percent in calendar year 2011. Also, as noted previously, home prices will decline through the first quarter of 2010 (and commercial property values are likely to decline through early 2011).
- On a calendar year basis (annual averages), Georgia's nonfarm employment will decline by 120,000 jobs in 2009 and by 12,000 jobs in 2010, which is not too different from the "employment gains/losses" metric used by the City of Atlanta's Department of Finance, Office of Revenue.

GEORGIA ECONOMIC FORECAST, 2009-2010

Georgia	2005	2006	2007	2008	2009	2010
Real Gross State Product, Bil of 2000\$	322.6	326.5	331.3	329.5	317.0	322.4
Percent change	3.8	1.2	1.5	-0.6	-3.8	1.7
Nonfarm Employment (thousands)	4001.2	4089.1	4145.5	4102.5	3910.2	3869.8
Percent change	2.6	2.2	1.4	-1.0	-4.7	-1.0
Personal Income, Bil of \$	284.3	301.0	319.0	329.1	318.7	325.2
Percent change	7.3	5.9	6.0	3.2	-3.1	2.0
Housing Permits, Total	109336	104200	73165	35368	17800	33000
Percent change	0.9	-4.7	-28.9	-51.7	-49.7	85.4
Unemployment Rate (percent)	5.2	4.6	4.6	6.2	10.0	10.9

Source: The Selig Center for Economic Growth, Terry College of Business, The University of Georgia, September 15, 2009.

GEORGIA'S EMPLOYMENT FORECAST, 2009-2010

Georgia	2005	2006	2007	2008	2009	2010
Nonfarm Employment¹	4001.2	4089.1	4145.5	4102.5	3910.2	3869.8
Goods Producing	670.7	678.5	664.5	623.3	540.8	503.9
Mining and Logging	12.1	12.2	11.9	10.3	9.8	9.8
Construction	208.8	218.8	221.2	204.7	171.3	153.2
Manufacturing	449.8	447.5	431.4	408.3	359.7	340.9
Services Providing	3330.5	3410.6	3481.0	3479.2	3369.4	3365.9
Trade, Trans., Utilities	852.9	871.3	886.9	874.7	830.4	825.3
Information	112.2	111.4	111.5	108.7	103.2	98.7
Financial Activities	225.4	230.7	231.2	224.1	209.8	201.4
Professional and Business Services	536.1	551.5	563.6	557.4	514.0	520.6
Education and Health Services	424.0	439.4	454.7	465.8	475.5	488.7
Leisure and Hospitality	372.0	384.0	396.1	394.5	389.1	388.1
Other Services	158.3	159.2	160.5	160.4	154.2	152.0
Government	649.6	663.1	676.6	693.5	693.2	691.1
Percent Change						
Nonfarm Employment	2.6	2.2	1.4	-1.0	-4.7	-1.0
Goods Producing	1.6	1.2	-2.1	-6.2	-13.2	-6.8
Mining and Logging	-0.8	0.8	-2.5	-13.4	-4.9	0.0
Construction	4.5	4.8	1.1	-7.5	-16.3	-10.6
Manufacturing	0.3	-0.5	-3.6	-5.4	-11.9	-5.2
Services Providing	2.9	2.4	2.1	-0.1	-3.2	-0.1
Trade, Trans., Utilities	2.7	2.2	1.8	-1.4	-5.1	-0.6
Information	-1.7	-0.7	0.1	-2.5	-5.1	-4.4
Financial Activities	3.0	2.4	0.2	-3.1	-6.4	-4.0
Professional and Business Services	4.6	2.9	2.2	-1.1	-7.8	1.3
Education and Health Services	3.6	3.6	3.5	2.4	2.1	2.8
Leisure and Hospitality	3.3	3.2	3.2	-0.4	-1.4	-0.3
Other Services	1.3	0.6	0.8	-0.1	-3.9	-1.4
Government	1.9	2.1	2.0	2.5	0.0	-0.3

¹ Indicates thousands of workers.

Source: Selig Center for Economic Growth, Terry College of Business, The University of Georgia, September 15, 2009.